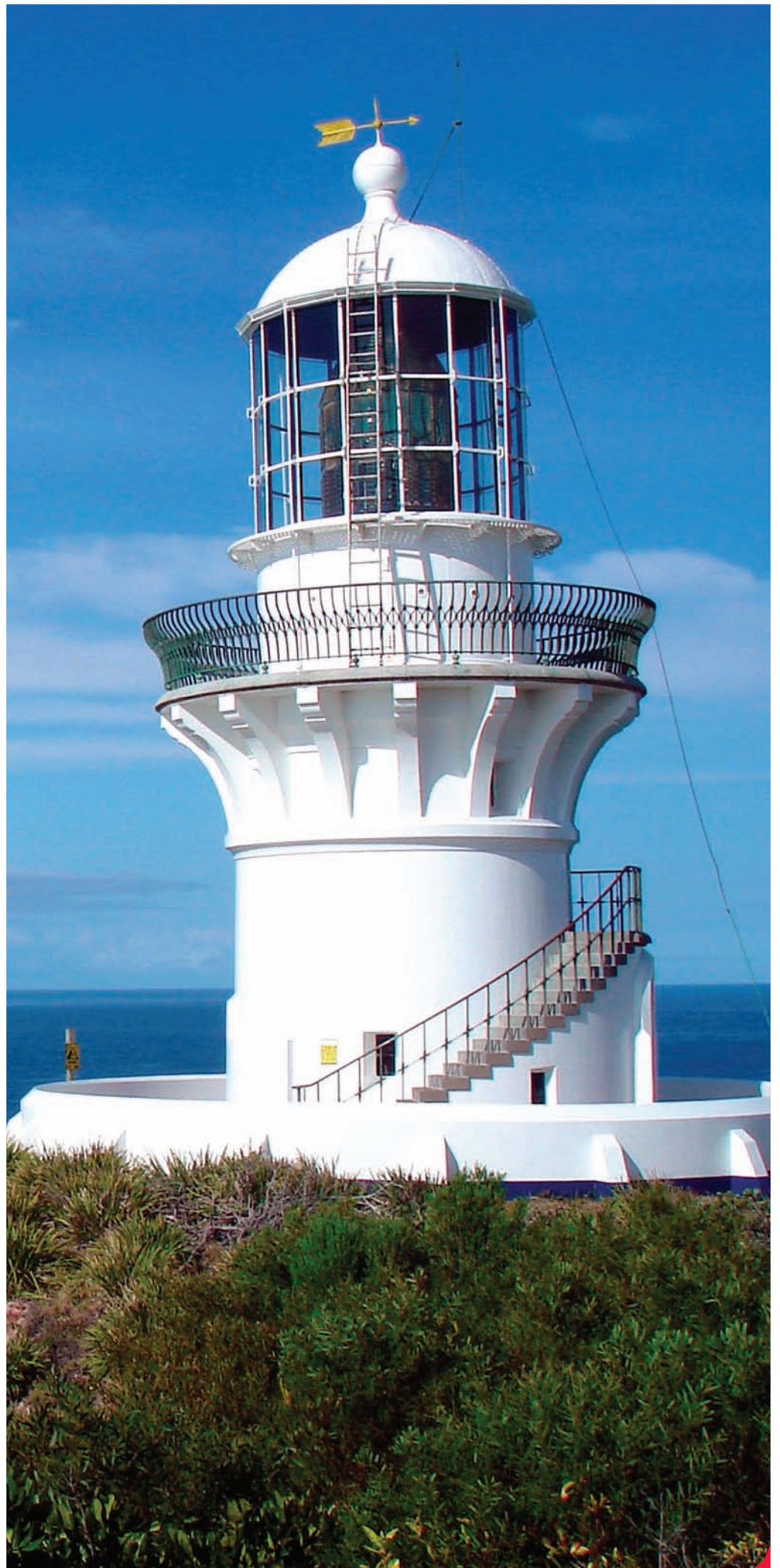




Financial Services Limited  
*Local Matters, National Strength.*



## Tax-efficient investments 2011/12

Our guide to tax  
shelter opportunities.

[www.hwca.com/fs](http://www.hwca.com/fs)

# Seeking shelter

Within the UK tax shelter market, there has always been an array of different scheme promoters each targeting specific investment opportunities. With our in-depth and specialist knowledge built up over many years of researching the sector, we form our own independent judgements on their relative merits.

This expertise ensures that we only ever recommend schemes which offer clear and tangible benefits to our clients.

You can find out more about the various opportunities available on the pages listed below:

Page	Product Area	Tax Advantages
04	An ever-changing tax regime	
06	Venture Capital Trusts	IT CGT
08	Enterprise Investment Schemes	IT CGT IHT
10	EIS and IHT portfolio vehicles	IT CGT IHT
12	Business Premises Renovation Allowances	IT
14	Active Trading Businesses	IT CGT
16	Inheritance/Estate planning	IT CGT IHT
17	Forestry	IT CGT IHT CT
18	Bespoke tax planning opportunities	IT CGT IHT CT SDLT
19	Alternative investments	IT CGT IHT CT
20	Further information	
20	Important information	

## KEY

- IT Income Tax
- CT Corporation Tax
- CGT Capital Gains Tax
- IHT Inheritance Tax
- SDLT Stamp Duty Land Tax

# Introduction

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HW Financial Services Ltd (HWFS) was established to offer strategic financial planning advice to clients. We take pride in our ability to assist, review and assess the suitability of tax-efficient investments.

This guide looks at the main areas in which tax-efficient investment products are available for use and explains the ways in which the benefits can be utilised.

We also look at some of the other areas in which tax planning opportunities are currently being employed and discuss the future of tax planning more generally.

The arrival of the 50% higher rate tax band, the rise in Capital Gains Tax to 28%, phasing-out of personal allowances for incomes over £100,000 and the reduction of the annual allowances for pension contributions from £255,000 to £50,000 all make this area of planning of even greater importance.

Whilst this guide is not intended to be a fully comprehensive review of all tax planning techniques, we hope that you find it informative and that it will provide you with general guidance as to the methods by which you may be able to legitimately shelter your liability to UK taxes.

There are many planning strategies which are available to potential investors, provided by a host of promoters and often they reflect different commercial and tax profiles.

HWFS, as part of the Bestinvest group, are able to independently review and assess the relative merits of such offerings, given the capability of our in-house Research Team.

We are not affiliated or tied to any fund management house or product provider. You can therefore be confident that our research, analysis and advice are all impartial.

Our primary aim is to ensure that the investments we offer are suitable for our clients and the implications of any investment are fully appreciated. We take time to understand each client's background, investment experience and objectives before we recommend any solution.

We pride ourselves on the depth and breadth of our research and our clients have the comfort of knowing that the schemes we put forward have all been thoroughly analysed. Any investment provider we recommend passes through a two-step process whereby both the company and their investment proposition are fully evaluated.

When advising clients on the opportunities that are available to them, our overriding objective is to ensure that we provide an independent assessment of these products and 'tell it as it is'. In certain instances, this may mean that we do not recommend certain products and strategies to clients.

For a more detailed discussion about how you may take advantage of the opportunities with respect to your own personal circumstances, please call your local HWFS consultant or email [contact@hwfs.co.uk](mailto:contact@hwfs.co.uk)

## IMPORTANT

This guide focuses on tax-efficient investments commonly known as 'tax shelter' products. These are generally considered more specialised investment options and are not suitable for all investors. There are other more mainstream products available which offer tax incentives, such as Individual Savings Accounts (ISAs) and self invested personal pensions (SIPPs), which we do not cover within this guide.

On the following pages we focus on products which provide some form of statutory tax incentive. We describe their key features and the tax benefits they offer. It is important to remember that tax incentives are usually given in order to encourage private investment into areas where the Government is generally not willing to provide

further funding (for example, in regions and cities in need of economic stimulus or in smaller and start-up companies seeking capital). As a result, the tax breaks offered by this form of "social investment" may be viewed as being necessary to balance out risks and rewards. It is important to note that these products are high risk investments. Due to their complex nature you should seek advice before investing in order to fully understand the risks involved. Please also refer to the important information contained on the back cover.

The information in this guide is, to the best of our knowledge, correct as at October 2011. Please note that tax rates and practice are subject to change at any time.

# An ever-changing tax regime

Maximising opportunities to reduce your UK tax burden has rarely been more important. High earners, for instance, now have to pay 50% income tax on earnings over £150,000 (see Table 1). Despite a statement from the Chancellor that this rate will be short lived, there has yet to be any indication of when this might end. Those earning over £100,000 have also seen their personal allowances eroded, with their £7,475 allowance reducing down to zero by the time their annual earnings reach £114,950 (see Table 2 opposite).

Table 1

INCOME TAX RATES & TAXABLE BANDS	2011/2012 TAX YEAR
Starting rate for savings: 10%*	£0 to £2,560
Basic rate: 20%	£0 to £35,000
Higher rate: 40%	£35,001 to £150,000
Additional rate: 50%	Over £150,000
Dividend rates	10% for lower rate taxpayers 32.5% for higher rate taxpayers 42.5% for additional rate taxpayers

**\*Introduced in the 2008/9 tax year, the 10% starting rate applies to savings income only. This rate does not apply if your non-savings income is above this limit.**

Private investors have also been hit by changes to two of the main tax-efficient investment strategies. Firstly, we have seen the end of the highly popular accelerated tax allowances for investors in Enterprise Zone properties (despite the Government creating a host of new zones across the UK). Secondly, the amount of tax relief available on pension contributions has been dramatically reduced – only contributions up to £50,000 now qualify for tax relief in this tax year. What's more, the lifetime allowance (LTA) for pension contributions also reduces from £1.8 million to £1.5 million in April 2012.

The good news is that the Chancellor has announced a number of tax-saving opportunities, many of which relate to existing incentives. Significantly, the Budget raised the income tax credit offered by Enterprise Investment Schemes to 30% (see page 8) and also extended the Business Premises Renovation Allowance (see page 12).

In this ever-changing environment, it is crucial to take a proactive stance in order to maximise the tax efficiency of your portfolio. While this guide is not intended to be fully comprehensive, we hope that it helps you on your way to developing a suitable strategy for protecting your wealth from avoidable UK taxation.

## Table 2

INCOME TAX RATES & TAXABLE BANDS	2011/2012 TAX YEAR
Personal allowance <sup>(1)</sup>	£7,475
Income limit for personal allowance	£100,000
Personal allowance ages 65-74 <sup>(1) (2)</sup>	£9,940
Personal allowance ages 75 and over <sup>(1) (2)</sup>	£10,090
Married couple's allowance (born before 6th April 1935 and aged 75 and over) <sup>(2) (3)</sup>	£7,295
Income limit for age-related allowances	£24,000
Minimum amount of married couple's allowance	£2,800
Blind person's allowance	£1,980

<sup>(1)</sup>The personal allowance reduces by £1 for every £2 of income above the £100,000 limit, irrespective of age. <sup>(2)</sup>These allowances reduce by £1 for every £2 of income above the income limit for age-related allowances. From the 2010-11 tax year, the personal allowance for those aged 65 to 74 and 75 and over can be reduced below the basic personal allowance where the income is above £100,000. <sup>(3)</sup>Tax relief for the married couple's allowance is given at 10%. Source: HM Revenue & Customs (HMRC).

## IMPORTANT

A number of the products described in this brochure are considered to be Unregulated Collective Investment Schemes (UCIS) for regulatory purposes. This means that their promotion is strictly controlled and that HW Financial Services are only able to provide details to those who are considered as suitable investors. Accordingly, we may ask you for detailed information about your income, wealth and asset holdings before we disclose any product details. In addition, we may need to establish your experience of investing in similar products and any relevant investment expertise that you may have

(through your profession, for example). This information will be used by us to assess the suitability of the particular product to your circumstances and objectives and is crucial in enabling us to fulfil our obligation to ensure that we are providing you with best advice.

Please note that the examples provided within this guide are intended only to give general guidance to investors and should be regarded as indicative only. Tax rates and allowance are based on 2011/12 figures, unless otherwise noted, and are subject to change in the future.

# Venture Capital Trusts (VCT)

Our specialist Research Team have been advising on Venture Capital Trusts since the market was established in 1995. Our comprehensive analysis means that we research existing VCT portfolios as well as new launches and the numerous top-up offers that arise each year.

Our insightful analysis can be accessed free of charge at our parent group website [bestinvest.co.uk/investment-research](http://bestinvest.co.uk/investment-research). We are able to offer our clients substantial discounts on the initial fees charged by these funds which, when combined with early bird discounts, can be as much as 5% or more.

VCTs offer a number of attractive tax benefits in order to encourage private investment into relatively small, unquoted UK companies. They pool together funds from numerous investors and invest this capital into a range of different companies which meet the VCT's investment objective. The various tax reliefs available continue for as long as the qualifying criteria are met. All VCTs are listed on the London Stock Exchange.

## INVESTMENT CONSIDERATIONS

While the tax advantages of VCTs offer significant downside protection, it's important to identify schemes which have a strong investment rationale. VCTs typically invest in a portfolio of companies chosen by their investment committees and so there is scope for diversification and risk reduction. However, many VCTs have historically failed to return the full capital invested.

VCTs can follow quite different investment strategies. Some are asset-backed (they take a charge against the assets of the portfolio or make loans to the businesses in which they invest). Others take a private equity approach, typically investing in young and small businesses. Some VCTs specialise in certain sectors such as healthcare, media or renewable energy.

Realising a VCT investment will depend upon its particular circumstances. Some VCTs are set up with a limited life and their strategy incorporates a planned exit point in the future. For others, there are usually three main ways to liquidate holdings:

- flotation of the underlying investments
- sale of the company
- management buy-out

## HWFS VIEW

*For investors who are able to hold long-term illiquid assets, VCTs are highly tax-efficient as they provide upfront relief and tax-free income. With our extensive research in this area, we aim to identify the best opportunities for our clients who wish to utilise VCTs as part of an overall tax-efficient strategy. VCTs are regarded as higher risk illiquid investments and investors should be aware that it may be difficult to realise these investments at levels that reflect the value of underlying assets.*

## TAX FEATURES

- 30% income tax credit on cost of new VCT shares, up to £200,000 pa (off-set against tax payable)
- Tax exemption for capital gains earned within VCTs
- Tax exemption on VCT dividends. Hence: a typical 5p dividend delivers an effective yield of 8.3% to a 40% taxpayer and 10% to a 50% tax payer
- Tax exemption for capital gains on VCT shares
- To retain the initial 30% income tax credit, shares in the VCT must be held for five years. However, the CGT exemption will still be available even if a disposal occurs within that period
- It is worth noting that, unlike EIS investments, there is no tax relief for capital losses suffered on VCT shares

## AN ILLUSTRATION OF TAX RELIEF

Initial tax relief is given as a 'credit' against an individual's income tax liability for the year in which the investment is made, at the rate of 30% of the gross investment cost (i.e. before any rebated discounts).

Thus, if an investor has a total tax liability from all sources of income (not capital gains) of £30,000 then an investment of £100,000 would provide full offset of the tax already paid or due to be paid. The maximum investment amount which qualifies for income tax relief in a tax year is £200,000. Dividends and capital gains from VCTs are exempt from taxes (but capital losses are not available for offset against capital gains).

Net taxable income	£100,000
VCT investment	£100,000
Basic rate tax	£7,000
Higher rate tax	£23,010
Total income tax	£30,010
VCT income tax credit	£30,000
Net liability	£10

# Enterprise Investment Schemes (EIS)

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Enterprise Investment Schemes and VCTs have many similar features. They both encourage private investment into small unquoted trading companies and offer investors upfront income tax credits (currently at 30% of the investment for EIS). They also offer tax exemption for realised capital gains.

An EIS investment is made as a subscription for new equity shares in a qualifying company, rather than investing into a listed VCT vehicle which may have a wide variety of investments. This may be made through an EIS investment fund (which invests in a group of companies) or directly into a single company. For larger investors there are benefits in creating a specialist EIS portfolio across a wide range of separate EIS projects as this can offer greater risk diversification and liquidity. An example of the benefits of an EIS is shown opposite.

## INVESTMENT CONSIDERATIONS

While the downside protection from the tax relief available on EIS investments provides some degree of comfort, investors should be focused on strong investment propositions – in anticipation of profitable performance – ideally with a clear anticipation of both the timing and manner of the likely exit for investors. For example, a number of EIS offerings look to preserve capital while generating low but predictable income streams in the underlying businesses. Typically these lower-risk investments use risk mitigation techniques, such as asset-backing or trading within strictly-controlled business parameters, to preserve shareholder funds. After three years a significant part of the asset base may be held in cash to provide liquidity for an orderly exit from the investment.

## HWFS VIEW

*EIS offer a wide range of tax benefits and are of particular relevance to investors who have previously made taxable capital gains. With reductions in pension tax relief over recent years, lower-risk EIS investments have been viewed as credible alternatives to pensions, given that they have fewer restrictions on the release and use of funds.*

*EISs are high risk investments and may only be suitable as medium or long term investments.*

## TAX FEATURES

- 30% income tax credit on the cost of investments in new EIS shares, up to £500,000 pa (set off against tax payable) with an additional £500,000 carry-back to the previous tax year
- To retain the credit investors need to hold shares for three years
- Uncapped deferral of capital gains made within previous 36 months or next 12 months – thus reducing the immediate CGT liability
- Tax exemption for capital gains earned on EIS shares (where income tax credit is claimed and retained)
- Exemption of EIS shares from taxable IHT estate after two years under Business Property Relief
- Tax relief for capital losses on EIS shares against either taxable capital gains or income of current/prior year (where income tax credit claimed and retained; capital loss excludes amount claimed as income tax credit)
- Therefore, if an investment in an EIS ultimately proves worthless, then as long as the investor utilised the initial income tax credit (30%) and can use the loss relief against income tax (at up to 50%) then the maximum loss that can be suffered is 35% of the original investment cost (i.e. the remaining 50% of the tax adjusted cost of 70%)

## AN ILLUSTRATION OF TAX RELIEF

Initial tax relief is given as a credit against an individual's income tax liability for either the year of investment or the prior year (if the maximum allowance for that year has not been utilised). The rate of credit is 30% and the current maximum qualifying amount for a tax year is £500,000. A total investment of £1million may therefore be spread over two tax years.

Dividends are taxable as income in the normal manner while capital gains are exempt if the shares are held for the requisite three-year minimum period. Capital losses are calculated after deducting the amount (if any) of the initial tax relief. Such losses can be offset against income from the current or prior year (thus potentially obtaining relief at higher marginal tax rates) or against capital gains of the current or future years.

Therefore, if investors have sufficient taxable income at higher rates against which to shelter future capital losses (projected at 50% for 2011/12 onwards), the net exposure to an EIS share that might prove worthless is reduced to only 35% of the gross cost:

Net taxable income	£100,000
Income tax credit	£30,000
Net cost	£70,000
Potential tax relief (i.e. 50% income tax relief on a maximum loss of £70,000)	£35,000
Maximum net exposure (nb: this would be £42,000 for 40% taxpayers)	£35,000

Investment into an EIS also permits individuals to defer prior/future capital gains from tax with no maximum limit. Therefore, CGT paid on gains within the previous 36 months (or next 12 months) can be recovered and only falls due on the sale of the EIS shares (although a further deferral with another EIS is possible). At that time the rate of CGT then in force will be applicable.

If held to death, the original gain does not crystallise and the EIS holding may be excluded from the taxable estate if the business property relief (BPR) conditions have been met.

# EIS and IHT Portfolio Vehicles

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As an alternative to investments into single companies, investors can choose to invest in a managed portfolio of companies to benefit from either EIS or IHT tax advantages. Portfolio services are available from a number of investment managers.

These enable investors to spread their capital across a range of qualifying trading companies. Investors can also opt for a particular industry sector, which may more closely reflect their personal tolerances in terms of risk and return. Investment usually results in ownership of a direct share in each underlying company and may therefore benefit from the asymmetric tax treatment afforded to capital gains and losses (please see the example opposite).

## INVESTMENT CONSIDERATIONS

A number of trades are not permitted due to the provisions of the EIS rules, such as financial services and land/property-backed businesses. However, investors may be able to protect their capital by investing in businesses which have safer and more predictable returns by taking guidance from promoters.

## **HWFS VIEW**

*For investors who wish to minimise their current CGT liabilities, this strategy may be attractive. The investments may become highly-efficient for IHT planning since, if held (for at least two years) until death, there is no crystallisation of the deferred CGT charge and the assets fall out of the taxable estate (under the business property relief rules).*

*EIS's are high risk investments and may only be suitable as medium or long term investments.*

## TAX FEATURES

- Unlimited CGT deferral (full deferral requires 100% of chargeable gain to be reinvested)
- Business Property Relief available after two years
- Potential for 30% income tax credit on EIS portfolios
- IHT portfolios offer capital protection and regular income

## AN ILLUSTRATION OF TAX RELIEF – EIS PORTFOLIO INVESTMENT APPROACH

As both VCT and EIS investments can carry significant commercial risks (although some investments are focused on capital preservation), it may be advisable for investors to consider a portfolio approach and so spread their investments.

If capital is fully recovered across the portfolio, investors will benefit simply because of the availability of the initial income tax reliefs. For VCTs this gain would be equal to the initial 30% income tax credit. However, for EIS investments the real gain is greater because of the ability to offset losses against taxable income, while benefiting from tax-exempt capital gains.

For example, five EIS investments are made at £20,000 each. Two prove worthless; two double in value and the other returns the original capital invested. Accordingly, the investor receives back their investment of £100,000. The cash-flow position of an investor would be as follows:

Investment	£100,000
Income tax credit	£30,000
Net initial cost	£70,000
Loss relief (i.e. 50% IT relief on net cost of two loss-making investments)	£14,000
Adjusted net cost	£56,000
Capital return	£100,000
Cash gain	£44,000

So, for merely recovering the original capital, the investor would have realised a 44% tax exempt return over a three year period. This would equate to an 88% gross equivalent taxable return (at 50% income tax rates).

The importance of the asymmetric tax treatment of EIS investments held on a portfolio basis (where both losses and gains are realised) means that the effective break-even recovery rate is lower than on a single shareholding which recovers an equivalent level of capital.

# Business Premises Renovation Allowances (BPPRA)

BPPRA deals enable investors to claim 100% accelerated capital allowances for qualifying renovation expenditure on commercial property in designated areas around the UK (including parts of major cities such as Birmingham, Glasgow, Liverpool and Newcastle).

There are numerous criteria which a property must meet before it qualifies for BPPRA treatment, including the need for it to have been unused for the previous 12 months. Projects which have qualified for BPPRA include empty office buildings that have been converted and refurbished for use as hotels by global hotel chains.

Investment is typically through a limited liability partnership, which arranges bank funding on a limited recourse basis of around 60% of the total agreed purchase price including renovation work (which is generally in the order of 70-80% of the total). Please see our example opposite.

## INVESTMENT CONSIDERATIONS

While investors will hopefully be involved in a business which will be sold as a profitable going concern, ultimately BPPRA deals need to be viewed as commercial property investments. This means that consideration needs to be given to factors such as:

- The quality of, and demand for, the BPPRA property itself after the seven-year allowance period
- The financial strength of the tenant/developer and any underlying trading business, which will determine the ability to avoid bank foreclosure during the seven-year period
- The availability of bank financing and attractive lending terms (usually recourse is limited to the property only, providing investors with personal protection against the bank claiming compensation for losses)
- Rental levels/lease agreements; BPPRAs are currently available on buildings within a number of major cities and such properties are likely to be more 'saleable' than the more remote Enterprise Zone properties.

## HWFS VIEW

*Providing investors are comfortable with the risks of investing into commercial property, BPPRA deals enable investors to take a property stake with a low initial cash requirement, although further cash input is required to cover ongoing tax on profits.*

*The returns depend on the net sale proceeds of the property, after repayment of any external borrowings, and so the property's saleability is crucial. Importantly, the disposal price may be based upon the earnings of an underlying business carried on in the property (e.g. hotel trade). Unless the gross sales price exceeds the original gross cost of the property, returns will be tax-free. BPPRA schemes are usually structured as Unregulated Collective Investment Schemes (see page 5).*

## TAX FEATURES

- Tax relief of 100% capital allowances on the qualifying renovation costs of the building, which typically represents a refund/offset of around 35%-40% of the gross purchase costs (at 50% tax rates)
- The allowance can be set against an investor's total income for the year of investment
- The initial tax relief may be withdrawn if the property is disposed of within seven years of the property being made available for use after renovation (typically eight years from investment)
- Tax will be payable by the individual investors on the net profits derived from the BPPRA property, after deducting financing costs, throughout the period that the investment is held

## AN ILLUSTRATION OF TAX RELIEF

These schemes allow investors to accelerate tax depreciation on qualifying renovation expenditure. They are funded by way of limited recourse bank debt of around 60% of the gross investment and an initial equity cash input of 40% from investors. As a proportion of the total property cost (around 20-30%) generally does not qualify for tax allowances, there may be a relatively small net initial cash outflow for investors to bear after tax relief has been obtained (usually up to 5% of the gross amount).

Tax will be payable on net rentals over the seven-year (minimum) holding period and typically may amount to 15% of the gross investment cost in cash terms.

On disposal the outstanding part of the loan is recovered from the sales proceeds, with any surplus available to the investors. An example of a 50% taxpayer's investment is as follows:

Gross investment	£100,000
Non-recourse loan (from bank)	£60,000
Cash input required	£40,000
Tax allowances (assume 30% non-qualifying)	£70,000
Original cash input	£40,000
Deduct: Tax refundable (i.e. 50% on 70% of cost)	£35,000
Net cash investment (after tax relief)	£5,000
Tax payable on net rentals (estimated at 15% of £100,000, over 7 years)	£15,000
Total 'investment' in BPPRA	£20,000
Disposal proceeds (estimate)	£80,000
Outstanding loan to be repaid (estimate)	£20,000
Cash return from BPPRA (versus total investment of £20,000)	£60,000

# Active Trading Businesses

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Changes made to partnership taxation have resulted in a number of opportunities for investors to actively participate in trading activities. These arrangements usually involve an individual trading in their own name as a 'sole trader' with specialist support being provided by consultants. A number of schemes have been set up to exploit territorial film rights and intellectual property rights using these structures.

Individuals are typically able to finance their gross investment in the trade with the aid of funding arranged by the consultants (around 80% of the total cost of acquiring the rights). Certain initiatives have been challenged by HMRC and extreme care needs to be taken when assessing the overall arrangements to ensure that the legal structuring and implementation are properly carried out. It is also important to check that valuations, income and expenditure projections are all based on valid commercial models.

Such opportunities tend to be bespoke in terms of size and product content. Where these are genuine commercial operations, any initial losses should be tax deductible. Future profits will be taxable and individuals may use distributions from the business to pay future tax liabilities. Accordingly, these structures may create an initial refund of tax, which is repaid over time with cash drawn from the business. Since the activity should be a qualifying trade, individuals may be able to use the Business Property Relief (BPR) exemption from inheritance tax if they choose to retain their trade investments. Please see our example opposite.

## INVESTMENT CONSIDERATIONS

The commercial arrangements vary between the different opportunities available, reflecting the more bespoke nature of the planning. Individuals should consider the likely cash-flow implications of the structures, which will be dependent upon the level of any available funding as well as the projected start-up trading performance, as losses may be incurred in early years. Over the long run, individuals may prefer to look for activities which are expected to consistently generate positive cash-flows.

## HWFS VIEW

*This type of arrangement is usually only suitable for participants who are genuinely prepared to carry on an active trade and who can devote the necessary time to the business activity in a meaningful way. HMRC will review the arrangements of each individual, possibly through a personal interview. However, such structures may be considered to be at the less risky end of bespoke tax planning where there is a strong underlying commercial investment. Depending on the specific arrangement investors should be aware that an active trading business could be a higher risk option.*

## TAX FEATURES

- Where investments are in true commercial trades, any losses suffered should be available for set-off against income
- Offsets may be available under the more generous 'sideways loss relief' rules against income/capital gains of the current/prior year; there is also the ability to carry back against income for the previous three years
- Individuals usually need to actively participate in the running of the business for a minimum of 10 hours per week over a six month period
- Participants will need to be able to demonstrate these activities when reviewed by HMRC

## AN ILLUSTRATION OF TAX RELIEF

Any cash-flow analysis of this type of transaction will depend upon the type of business which the participant will trade in and the particular methodology used to value the trading performance.

The individual's right to benefit from future revenues will depend upon the loan repayment arrangements and any revenue sharing agreement with the advisers. Typically, funding is provided to finance around 80% of the initial trading requirement, with 20% personal cash input. Any initial trading losses should be available for offset against income of the current year and the three previous years (subject to HMRC agreement). Future revenues would generally be taxable, but may be funded by cash drawings from the business. In the situation of an individual who is a 50% taxpayer who makes a gross 'investment' into a trade of £1 million, the cash-flows may be as follows:

Initial cash input	£200,000
Limited recourse loan	£800,000
Gross individual capital	£1,000,000
Trading loss (i.e. 85% write-down of net realisable value)	£850,000
Tax refundable (i.e. 50% of £850,000)	£425,000
Initial cash-flow improvement (i.e. £425,000 refund versus £200,000 input)	£225,000

# Inheritance/Estate Planning



As well as using the well-established methods of estate planning through wills and trusts (the tax treatment of which is beyond the scope of this guide), there are a number of investment strategies which can provide tax efficiencies in the event of an investor's death.

In the simplest form, investors can choose to invest in, and retain, assets which are specifically exempted from IHT when held at death. More complex strategies will require a detailed review of both an investor's personal circumstances and their overall financial objectives, which HW Financial Services can assist with through our Financial Planning team.

## INVESTMENT CONSIDERATIONS

Whenever funds are invested into assets which are excluded from an individual's estate, care must be taken to ensure that appropriate control and risk management is exercised in order to protect the assets which will be passed on. These safeguards involve taking appropriate advice from professionals across the relevant disciplines and understanding the economic risks that exist with alternative investments.

## HWFS VIEW

*This area of planning requires an in-depth review and full understanding of an investor's personal circumstances and objectives. HW Financial Services is able to assist in this area through our specialist Financial Planning team, which can also provide introductions to legal advisers if necessary.*

## TAX FEATURES

Specific exemptions are available for certain assets:

- Most AIM shares
- EIS shareholdings
- Qualifying trading companies
- Forestry & agricultural land
- Wills & trusts

# Forestry



Investments in forestry have benefited from certain UK tax reliefs for a number of years. Successive governments have recognised the need to promote better environmental practices, including the reduction of carbon emissions through the provision of timber-based energy production, and to provide incentives for sustainable forestry initiatives.

The main enticements provided to investors have been made through a series of exemptions, including:

- income generated from timber investments is exempt from income and corporation tax
- increases in the value of timber in commercial woodlands is exempt from CGT (increases in the value of the land is not exempt)
- forestry land is a qualifying business asset and can provide 'roll-over' relief if the proceeds from taxable capital gains are invested
- timber and land in commercial woodlands is eligible for 100% business property relief after two years ownership and can be excluded from a taxable estate for IHT purposes.

## HWFS VIEW

*While timber may provide a regular tax-free income stream and its cultivation helps maintain timber stocks, the price of timber is subject to fluctuations driven by external commercial forces. Forestry assets are typically purchased while immature and held for the long term. Trees usually enjoy volume growth of 3-4% pa and this aspect of the return is uncorrelated to other assets.*

*However, costs (both initial and ongoing) tend to be relatively high and so for investors to receive an attractive return there needs to be growth in the timber price. This makes such assets primarily of interest to those looking for an IHT shelter and/or CGT rollover.*

*Forestry investments are usually illiquid and are best suited for investors with long time horizons.*

# Bespoke Tax Planning Opportunities



Recent years have seen HMRC and the Courts take a harsher stance towards tax planning devices and in particular those which have little commercial rationale. As a consequence, HMRC have managed to push through many legislative changes which are aimed at closing down loopholes in the existing tax laws while also requiring that users and promoters of legal tax avoidance schemes notify HMRC once such strategies have been utilised.

This approach has obviously caused a great deal of uncertainty amongst the investor community and many prospective investors will have been deterred from participating in schemes which, based on prevailing tax law, should have been valid. However, the tax planning industry has continued to develop new approaches and innovative products appear in the marketplace on a regular basis.

Clearly such complex tax products are not appropriate for everyone. However, there is a growing band of investors to whom tax-efficient investment is attractive, particularly those in the 50% income tax band. Accordingly, esoteric tax planning products can have great appeal as they potentially offer shelter from income, inheritance and capital gains tax right through to corporation and stamp duty land tax.

HW Financial Services are ideally placed to help investors identify appropriate tax planning strategies for individuals. Thanks to our long-established network of UK financial promoters and more than two decades of rigorous independent research into the sector, we can provide impartial advice on both the commercial aspects and the expected tax treatment of any planning strategy.

If you are a high net worth individual and are concerned as to the extent of your potential UK tax liabilities, contact Richard Dawes, HWFS Managing Director, on 020 7189 9999 to arrange a consultation.

# Alternative Investments



We are frequently given access to investment opportunities which do not fall into the more traditional asset classes. Some of these alternatives enjoy tax advantages that can deliver enhanced returns.

## WINE

Wine investments which are directly held by investors should be tax-exempt from CGT under the wasting asset/chattel rules. However, this means that any losses suffered will not be tax deductible. Investments made through wine funds are likely to be taxed as capital assets with gains being subject to CGT (which at 18% or 28% is still likely to be lower than an investor's marginal income tax rate). Of course, there is the possibility of offsetting gains against the annual CGT exemption or any existing capital losses.

As with any investment, the underlying commercial rationale for making a specific wine investment should always be considered before making a commitment. While wine returns have been very high in recent years – the LIV-ex 100 Fine Wine Index rose 100% between 2006 and late 2008 – there was a significant fall of close to 20% during 2009. The index has since stabilised and the more traditional trend of slow, steady increases seems to have returned once more.

## COMMERCIAL PROPERTY / PLANT & MACHINERY INVESTMENTS

Certain property-based investments may include a significant capital investment in plant and machinery. In the event that such assets qualify for capital allowances, investors may be able to set those reliefs against their other taxable income (usually in the early years of an investment). The impact of such tax relief should therefore be considered when assessing the overall projected return from such an investment, as there will be an impact on the 'net present value' and 'internal rate of return' calculations.

## SPECIALIST INSURANCE

While it is not directly relevant to the majority of our clients, we are able to introduce investors to specialists who can advise on the risks and rewards of outsourcing into insurance (such as Lloyds of London) on a 'limited liability' basis (with minimum capital at risk of £350,000).

## DIVERSE ASSET FUNDS

*Certain funds have a wide range of underlying assets, providing investors with a diversified risk profile. Where these funds are structured as open ended investment companies (OEICs), it is possible that returns will be realised as capital gains rather than as income (and therefore benefit from the advantages of the lower CGT rate, the employment of any capital losses and the annual CGT exemption).*

# Further information

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If you are a high net worth individual, or are concerned as to the extent of your potential UK tax liabilities, contact Richard Dawes, Managing Director on 020 7189 9999 to arrange a private consultation.

## Important information

The purpose of this guide is to provide you with a high-level overview of the current tax planning environment, with broad descriptions of some of the products and strategies which are presently available to help with the legitimate mitigation of tax. Inevitably, tax reliefs and rates of taxation will be altered by government and the attitude and interpretation of HMRC may well differ from the views expressed herein.

Many of the opportunities discussed in this guide are only available to individuals that meet certain wealth criteria. Additionally, many of the tax incentives have specific eligibility conditions that need to be met before individuals are able to take advantage of them. If such criteria and conditions are not met, it is possible that some schemes will not be made available to individuals or that tax reliefs may not result from an investment. Accordingly, it is strongly recommended that you discuss your personal circumstances with your HW Financial Services consultant. Alternatively, contact Richard Dawes, Managing Director on 020 7189 9999 to arrange a consultation.

For the avoidance of doubt, HW Financial Services Limited wishes to draw the following points to your attention:

- By making this guide available we are not inviting or soliciting individuals to invest in any scheme which may provide a tax shelter.
- Investments described in this guide are not usually regulated by the Financial Services Authority (FSA) and therefore may not be covered by the Financial Services Compensation Scheme or provide a cooling-off period. Access to the Financial Ombudsman Service may not be available.
- The value of investments made into tax shelters is not usually guaranteed, and returns (including tax refunds) may deviate from the projections provided by the promoters. You may not get back the full amount of your investment.
- Tax planning and the use of schemes such as those described in this guide may not be attractive or appropriate to all investors, and so we recommend potential investors to seek independent financial advice (available from HW Financial Services Limited).
- The cash-flows shown in the examples are for illustrative purposes only and should not be relied upon by investors. Specific guidance on the likely cash-flows of a particular investment may be provided by your HW Financial Services Consultant when reviewing investment opportunities and taking into account your personal circumstances.

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