NEWSLETTER

CLAIRVILLE YORK FINANCIAL ADVISERS

TAX AVOIDANCE?

Government plans to sanction professional firms which devise schemes which are designed to minimise tax, and which have been successfully challenged by HM Revenue & Customs, have been criticised as blurring the line between tax avoidance and tax evasion.

Mark Joscelyne, partner and head of the tax group at law firm Olswang's described the proposals as "very worrying". He commented that *"First, they represent a further blurring of the crucial distinction between tax evasion, which is nothing short of theft, and tax avoidance, which is highly subjective and essentially relies on the interpretation of often complex legislation which may or may not be ambiguous."*

"Secondly, it threatens both the rule of law and the right of any citizen to base his actions on the law as it stands and the ability for commercial people to go about their business."

Mr Joscelyne said that changing attitudes meant that practices which were acceptable by HMRC at a previous time would now come under scrutiny, with the result there was *"a real danger"* that *"bona fide intermediaries and advisers will feel extremely vulnerable to giving any advice that might ultimately be construed as tax avoidance, thereby stultifying many commercial transactions where there is any scope for the assertion that tax has somehow been avoided."*

As far as investment is concerned, the Government appears to be discouraging any schemes other than those which it has itself specifically approved, such as pensions, ISAs, VCTs, EIS and BPR.

FEWER VCT OFFERINGS

The reductions in the pension lifetime allowance to £1 million and in the annual contribution allowance to a maximum of £40,000 have caused some more affluent clients to consider alternative tax-efficient types of investment, and in particular Venture Capital Trusts ('VCTs').

Whereas pension contributions currently offer income tax relief at the investor's highest marginal tax rate, VCTs offer 30% relief subject to being held for at least 5 years. In addition, like pension savings, VCT investments provide tax relief on both dividends and capital growth. The maximum permitted investment is £200,000 per tax year.

Most VCT managers market their latest products in the early autumn, but the extra demand from pension savers and new restrictions on the types of company in which VCTs are permitted to invest suggest that demand might exceed supply this year.

It should always be remembered, however, that the reason why the government offers special tax breaks on VCTs is that the companies in which they invest are relatively high risk.

PENSION POT WITHDRAWALS

According to the Association of British Insurers, around 300,000 pension savers made 1 million pension fund withdrawals in the first year of 'pension freedoms', George Osborne's major 2015 reform which permits personal pension pots to be encashed as from age 55.

The ABI report concludes that 57% of savers withdrew less than 1% of their fund, and 4% withdrew more than 10%. Only a minority made withdrawals which might risk draining their pension pots in a decade or less.

STATE PENSION TOP-UP

The new scheme which was introduced in October 2015 to enable men born before 6 April 1951 and women born before 6 April 1953 to top up their State pensions has been largely ignored, even though the available income is twice that which could currently be obtained from buying an annuity.

Reluctance to part with cash could be part of the reason for the reluctance to take up the offer, but other reasons suggested are that the scheme is only available on-line (32% of over 65-year olds do not have a computer) or by paying 12p per minute for phone calls.

The cost of the top-up reduces according to age, reflecting the shorter periods over which the income will be payable. A 65 year-old man can buy an extra £1 of State pension per week for £890 (a return of 5.84%) whereas the cost for a 75 year-old man would fall to £674 (a return of 7.2%).

Depending on individual circumstances, a maximum of £25 extra weekly income is available through the scheme.

PENSIONS DASHBOARD

In his 2016 Budget speech, chancellor George Osborne encouraged the pensions industry to create by 2019 an on-line 'dashboard' which would enable pension savers to view in one place all the schemes of which they are members.

The project has been welcomed and a number of organisations have come forward to begin the process of establishing a set of standards. The critical issue, however, is whether a consensus can be reached on the adoption of a common standard.

A comparison has been made with the introduction of video in the 1980s, when VHS and Sony Betamax were vying with each other until Betamax threw in the towel.

Compiling all the necessary information will not be easy. Data in relation to most modern pensions may be reasonably accessible, but older schemes may depend on old administration systems; and not all company schemes carry members' benefit information in transferable form. State pensions will also need to be included.

Data security is another issue and depends on being able to identify and verify individual members. However, there are examples of secure portal registration already in existence in both the private and the public sectors.

Giving pension savers the ability to see all their pensions in one place at the same time through a pensions dashboard could revolutionise attitudes and may provide the catalyst for some people to take action to safeguard their standard of living in retirement.

Clairville York Limited, 22-34 High Street, Cheam SM3 8RL. Tel: 020 8642 3899. Fax: 020 8642 8348. Email cyfsl@cyfsl.co.uk. www.clairvilleyork.co.uk