

# Tax Avoidance

**A Practical guide for UK residents**

Samuel Blankson

*Tax Avoidance, A practical guide for UK residents*

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## ***Introduction***

There are many things and people who have a vested interest in getting some if not, all your money. Whilst you can shield yourself with insurances and good legal representation against most of these potential wealth stealers, you are fairly limited to the biggest wealth stealer of them all, Governments, and their wealth stealing strategies incorporated in tax laws.

Every year, the tax machine plugs more loopholes and introduces new reporting and disclosure laws, further limiting your ability to avoid their excessive taxes.

Taxes were originally introduced to fund war campaigns, but have since developed into institutions. Governments are powerful organisations with the power to introduce laws that will increase their main source of financing, taxes. This leaves you and me the innocent citizens of these governments' jurisdictions almost powerless to stop the ever-increasing routes in which your hard-earned money is siphoned off, through taxes.

There are some avenues still remaining for the private individual to legally secure and protect themselves against some of these taxes. These methods are never long lasting however as the tax machine of the governments are constantly reviewing ways to plug these loopholes and benefits. They also introduce new legislations and tax laws that restrict and further complicate the methods and structures you can use to avoid these taxes.

This practice is now at a point that you almost have to be a qualified tax lawyer who is constantly studying new proposals and tax laws in order to creatively spot and devise ways to avoid tax.

In this book, you will learn the various ways of avoiding taxes. The advice here will sometimes be general as tax laws change so often that by the time you read this book, any specific advice I offer will have lost its advantages. For a current view on all these strategies and methods, seek the advice of a professional tax consultant.

## **Chapter 1**

- *Avoiding Tax*

## ***Avoiding Tax***

There are two main categories of taxes: personal and business. Business taxes are related to taxes levied against businesses, and business owners. Most governments are careful not to over exert themselves in this area, as they do not want to drive corporate investment abroad where lower taxes on businesses will allow businesses lower operating costs.

To this extent, although complex, business taxes are geared towards taking a percentage of business profits after many allowed deductions. For this reason, business owners generally have a better tax position than non-business owners do. For instance, a business owner's car, home, travel costs, investment losses etc, can be offset against taxes, thus reducing his/her overall tax exposure. Private individuals on the other hand, are more exposed to the government taxes because of the limited deductions they are allowed to include in their tax calculations, compared to businesses.

There are taxes for the value added to raw materials; taxes on commodities that are harmful for the individual's health, like tobacco and alcohol; taxes on large purchases; taxes on property purchase, ownership, and sale; taxes on income; capital gains from investments; and the list goes on. In fact, it seems that every year, governments think up more ways of siphoning tax money from their citizens. Those who oppose or complain are fined, jailed, or have their livelihood and good name discredited or destroyed.

We will look at personal taxes, and business taxes. We will look at how to minimise or avoid these taxes. At the end of this chapter, you will have examined options and methods available to you today for greatly reducing your tax exposure, or eliminating your taxes altogether.

We will first look at various methods of minimising your tax exposure without leaving your home country. In most western countries, you will not completely be able to avoid taxes, but you will drastically be able to reduce your taxes, by over 75% in some cases. You can achieve this by using some

simple techniques, systems, and methods for arranging your financial situation.

We covered earlier that as an employee, you are in the ideal position to be exploited by the government tax offices. They do this through a range of high tax rates levied directly or indirectly on residents. Business owners have many tax advantages over their employees. The tax laws for businesses affect the individuals who own these companies; therefore, we will look at a mixture of personal and business tax saving ideas in this section.

We will concentrate on the UK tax laws for 2004/05. You will find that UK tax laws have many similarities with other country's tax laws. The list that follows, will give UK taxpayers specific ideas and information that they can take to their tax consultant or Independent Financial Advisor (IFA), to discuss in more detail. Readers from other countries can also take these ideas and concepts for further investigation to their tax consultants or IFAs, to find ways of achieving similar results using their country's tax laws. The following list is a list of taxes levied against UK residents and UK businesses:

***VAT on Income*** – Tax deducted from your income at source, from your employer. This tax rate is 17.5%.

***Income Tax*** – Tiered tax deductions made at source from your salary. The highest rate in the UK is 40%. (See <http://www.inlandrevenue.gov.uk/rates/it.htm>).

***Saving's Income Tax*** – This tax is similar to income tax, but is deducted from your saving's income. Tiered deduction claimed after your tax return. The highest rate in the UK is 40%. (See <http://www.inlandrevenue.gov.uk/rates/savings.htm>).

***National Insurance*** – Compulsory deduction for national pension, deducted at source from your salary. The highest rate in the UK is 12.8% of your income. A complex table of classes is

used to calculate this. (See <http://www.inlandrevenue.gov.uk/rates/nic.htm>).

**Car Tax** – In the UK, if you use your own car for work, and you exceed the allowance on fuel and mileage, it will attract added national insurance, and other taxes. (See <http://www.inlandrevenue.gov.uk/rates/travel.htm>).

**Capital Gains** – Profits made from the sale of any assets are added to your income and taxed for income tax and capital gains, at a tiered rate similar to the income tax tiered rates. (See <http://www.inlandrevenue.gov.uk/rates/cgt.htm>).

**Stamp Duty** – A tiered rate deducted on transfer of property or land. In the UK, the highest rate is 4% of the property value. (See <http://www.inlandrevenue.gov.uk/rates/interest.htm>).

**Inheritance Tax (IHT)** – This is a deduction against inheritances. In the UK, this is charged at 40% over the threshold of £263,000. This figure may change annually. (See <http://www.inlandrevenue.gov.uk/rates/inheritance.htm>).

**Tax Charges** – If you under pay your taxes or are late in paying your taxes, there will be an interest rate levied against the sum owed, over the period owed. This is normally close to the Bank of England base rate. (See <http://www.inlandrevenue.gov.uk/rates/interest.htm>).

**Value Added Tax (VAT)** – A 17.5% deduction made on the sale of goods that undergo production and distribution. This tax is charged at every sale point. (See <http://www.hmce.gov.uk/business/vat/vat.htm>).

Taxes are levied against manufacturers and affect the prices you pay for goods:

**Aggregates Levy (AGL)** – Tax for manufacturers who use sand, stone, rocks, and gravel. (See <http://www.hmce.gov.uk/business/othertaxes/agg-levy.htm>).

**Alcohol** – A tax for manufacturers of spirits and beers. (See <http://www.hmce.gov.uk/business/othertaxes/alcohol.htm>).

**Air Passenger Duty (APD)** – This is the latest UK introduction. It is a tax for passenger carriers (airlines) per passenger. Currently this tax ranges from £5 to £40, depending on the destination and class of travel. (See <http://www.hmce.gov.uk/business/othertaxes/air-pass-duty.htm>).

**Climate Change Levy (CCL)** – A tax for power generation and green house gas generating companies. (See <http://www.hmce.gov.uk/business/othertaxes/ccl.htm>).

**Excise Assessments, Penalties, and Appeals** – Interest charged on underpayment or late payment of VAT. (See <http://www.hmce.gov.uk/business/othertaxes/interest-charged.htm>).

**Gambling** – The rates of the different gambling duties are:

- *Lottery duty* – Levied at 12% of gross stakes.
- *General betting duty* – Levied at 15% of net stake receipts.
- *Pool betting duty* – Levied at 15% of net pool betting receipts.
- *Bingo duty* – Levied at 15% of bingo promoter's profits.
- *Gaming duty tiered* – This ranges from 2.5% to 40%.
- *Amusement machine licence duty* – This is tiered from £30 to £1950 per machine, based on licence period.

(See <http://www.hmce.gov.uk/business/othertaxes/betting.htm>).

***Insurance Premium Tax*** – This is a tiered levy from 5% to 17.5% on all insurance policies. (See <http://www.hmce.gov.uk/business/othertaxes/ins-prem-tax.htm>).

***Landfill Tax*** – This is a tax on waste disposal companies. This tax has some complex rules, but roughly amounts to £15 per tonne of disposed waste. (See <http://www.hmce.gov.uk/business/othertaxes/landfill-tax.htm>).

***Lorry Road-User Charge*** – This is a tax for lorry users. This tax is still under development, but is likely to be calculated via information from a compulsory onboard GPS device that tracks distance travelled. Its billing system converts the GPS data into costs, and automatically bills the hauliers monthly. (See <http://www.hmce.gov.uk/business/othertaxes/lruc.htm>).

***Road Fuels and Other Oils*** – Tax levied through regularly changing prices for light oils, heavy gas oils, fuel substitutes, and road fuel gas. (See <http://www.hmce.gov.uk/business/other taxes/roadfuels.htm>).

***Tobacco*** – Price per kilogram weight charged on all tobacco products. (See [www.hmce.gov.uk/business/othertaxes/tobacco.htm](http://www.hmce.gov.uk/business/othertaxes/tobacco.htm)).

***Warehousing and EC Movement of Excise Goods*** – This is a tax on tobacco storage and alcohol storage, their sale in warehouses, and their movement within the European Union. See <http://www.hmce.gov.uk/business/othertaxes/warehousing.htm>.

***Petroleum Revenue Tax*** – A tax levied at 10% against North Sea oil fields. (See <http://www.hmce.gov.uk/business/othertaxes/ptr.htm>).

***Congestion Charge*** – This is a fixed daily tax for entering a controlled area of a participating city during a set period.

London currently charges £5 per day. (For London, see <http://www.cclondon.com>).

**Council Tax** – Annual property tax based on area and cost of home bands. (See [http://www.voa.gov.uk/council\\_tax/index.htm](http://www.voa.gov.uk/council_tax/index.htm)).

**Vehicle Excise Duty** – This is known as road tax, and is a dual rate tax. It is dependent on vehicle engine size (£110 and £165). (See <http://www.dvla.gov.uk/vehicles/taxation.htm>).

**MOT** – The Ministry of Transport tests for vehicles over 10 years old. This tax was introduced in 1960. Today every car owner has to pay annually for this test to be carried out. MOT will cost you around £25 per test. (See <http://www.vosa.gov.uk>).

**TV Licence** – All television receiving equipment must be licensed. This tax was established in 1949 to raise funds to install, develop, and supply television transmissions through the then only supplier, the BBC. With the advent of commercial TV stations and cable TV stations, this service should not need to be paid for any more, but it is still charged annually. This is an example of how the government introduces a tax, but does not withdraw it when the initial reason for the tax is no longer valid. Currently a colour TV licence costs £121.00, and a black and white licence costs £40.50. (See <http://www.tvlicensing.co.uk>).

From the long list above, you can now understand why the cost of living is so high in the UK, and similar tax structured countries. Today the UK government raises 40% of its Gross Domestic Product (GDP) from taxes. UK residents find themselves paying ever-increasing taxes, whilst the services provided by the government are not represented by this ever-increasing sum. Education, Healthcare, Law and Order, Employment, and Transportation are all suffering. Today in most cases, the government is providing an inferior service compared to 30, 20, and even 10 years ago when these services

were better. Therefore, we are paying more taxes now, but maybe getting less value for them.