Reducing tax bill, part II

Dentists can ensure their tax burden is efficiently managed, says Thomas Dickson in the second of this two-part feature

As a number of dentists earn more than £150,000 a year, or aspire to, they need as much information as possible to reduce their tax bills.

**Offshore investing**

An offshore portfolio bond is an investment wrapper used to help with tax planning. Investing overseas can bring advantages to UK residents and offshore portfolio bonds are usually based in a number of different jurisdictions.

When bonds are held in the UK, income is paid net of tax. The benefit of an offshore portfolio bond is that it defers investment tax until you cash it in; the income can be rolled up gross over a number of years. The fund only becomes tax liable when the holder brings money back to the UK.

**Offshore savings**

Most of the big high street banks, as well as private banks, have subsidiaries that offer offshore accounts. Usually the minimum deposit is between £5,000 and £10,000, with anyone being eligible to open such an account. It is important to remember that the UK Financial Services Compensation Scheme does not cover offshore institutions. Some banks and building societies have pledged to cover any liabilities that their offshore subsidiaries cannot meet, but not all of them have made such a commitment.

Offshore trusts offer a good way of reducing inheritance tax liability. Money put in trust will enjoy the benefit of compound interest to help the fund grow. When tax is payable, it will be at the basic rate, so long as the beneficiary is not a higher-rate taxpayer. As long as the donor has lived for seven years after setting up the trust, the money is free from inheritance tax.

**ISAs**

From April 2010, the rules governing ISAs has changed. For cash ISAs, the maximum that can be saved will be £5,100 per year. With an investment ISA account, the ceiling will be raised to £10,200 per annum can be saved, of which 50 per cent can be in cash. Since the personal allowance for capital gains tax is £10,200, an individual can make a healthy profit up to this amount without paying any tax.

The trick is to pick funds and/or individual shares and bonds that will deliver high returns for the lowest risk, with low charges. Seek the advice of an Independent Financial Adviser to ensure you make the right choice.

**Employing a spouse**

Transferring part of your income to your spouse is worth considering as a way of reducing the tax burden. There are important steps to take.

A commercially justifiable wage needs to be paid, and minimum wage regulations are likely to apply. Keep clear records of not only the work the spouse does for the practice, but also the payments, ideally into a separate bank account in the spouse’s name. An employment contract is also a legal requirement. A salary between £110 and £884 per week is subject to employees’ national insurance at 11 per cent and employers’ national insurance at 12.8 per cent.

**About the author**

Thomas Dickson, director of Essential Money Limited, formerly a partner of Money4Dentists. For more information, and to receive a free copy of The Little Book of Money, packed full of practical hints and tips, contact Essential Money on 0221 685 3080 or email thomas@essentialmoney.co.uk.