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Tax havens and traps around the world

Ever dreamed of ditching the UK for a tax haven, where more of your hard-earned cash would be yours – and less get swallowed up by the greedy old taxman?

You're not alone. According to new research published by Barclays bank and the Economist Intelligence Unit, we're heading for a "wealth exodus" here in the UK. As many as one in seven of Britain's most affluent people are planning to move abroad to escape the UK's high living costs and excessive taxes.

Tax is an age-old burden. As Adam Smith, the great Scottish economist and author of *The Wealth of Nations* put it: "There is no art which one government sooner learns of another than that of draining money from the pockets of the people."

And that's a sentiment the residents of the original 15 European Union countries and China will know all too well. Forbes' aptly named Tax Misery Index puts these 16 countries at the top of the chart in the tax misery stakes. To calculate the index, it takes into account all taxes levied at the highest marginal rate. This includes both direct taxes (such as income tax) and indirect taxes (for example VAT).

What? No Britain in the top 10?

The fact that the UK, France, Germany, and so on, top the misery league table is no surprise. Although the fact that the UK doesn't make it into the top 10 may be at odds with the way most of us feel. But to be told that China is the other most 'miserable' country tax-wise comes as more of a surprise.

Forbes says it ranks so highly because of its extraordinary social security and pension rates. But Jack Anderson, an international tax lawyer, says China's ranking does come with a big qualifier. "Social taxes tend to have income caps that spare the highest earners. And special tax holidays for foreign investors and expatriates keep the effective rate of taxation (as opposed to the top marginal rate) closer to the other Asian countries. But a specific measurement of net take-home pay (after income and social taxes) for a top executive, reveals that only one other Asian country, Japan, leaves the executive with less than China does."

Which also goes some way to explain why investment gurus and economists keep banging on about China and India as the economies most likely to soar in the next decade.

Comfortable climates

And not all governments are as money-grabbing as one another. Forbes found the least miserable countries when it comes to taxation are to be found in the rest of Asia, the Middle East, and Russia. So what does all this mean? Well, the least miserable countries, tax-wise, tend to be the most beneficial to entrepreneurs and wage earners. Lower taxes stimulate productivity and output by

increasing incentives to save, invest and innovate. Those that are the most harsh on tax (the UK, to give one painful example) are the worst to do business in, or start up a business venture.

Republic of Ireland - an example

While quite the opposite is true of somewhere close to home - the Republic of Ireland. Its low corporate tax policies have transformed the country's economy. Thirty years ago, many Irish had to emigrate to find work. That's not the case any longer. In fact today, Ireland attracts a lot of foreign investment, as well as wealthy individuals.

The Republic's special tax regime, which applies to businesses trading in the International Financial Services Centre in Dublin and around Shannon airport, has proved a major success at attracting foreign investment. While low personal taxes for writers, artists, entertainers and sportsmen have attracted the likes of such people as 80s pop singer Lisa Stansfield and racing driver Damon Hill. Luxembourg is another example of a tax-friendly country. With its tradition of strict bank secrecy, this means it doesn't withhold taxes on interest payments to foreign savers. As a result, its economy has prospered and so too have its citizens. Teachers, for example, are paid nearly twice as much as their colleagues in heavily-taxed Belgium.

How about a place in the sun?

Many small countries and islands have quickly realised that establishing themselves as tax havens is the key to economic success. In the Caribbean, aside from tourism, financial services is the main economic driver for an increasing number of islands, such as the British Virgin Islands and Barbados.

Around Europe, offshore centres such as the Channel Islands of Alderney, Guernsey and Jersey, as well as the Isle of Man, Madeira, Malta and Cyprus have all proved highly successful in attracting investment.

Other jurisdictions with tax regimes that entrepreneurs in high tax companies find attractive include Belize, Dubai, Mauritius, Monaco and the Seychelles.

The top ten

The most tax-miserable countries (source: Forbes):

- France
- China
- Belgium
- Sweden
- Italy
- Austria
- Poland
- Spain
- Argentina
- Slovenia

And the most tax-friendly countries:

- United Arab Emirates
- Hong Kong
- Cyprus
- Georgia
- Singapore
- Russia
- Taiwan
- Thailand
- South Africa
- The Philippines

Closer to home

However, if you don't want to up sticks and move your life somewhere tropical/remote/non-English speaking yet altogether more tax-friendly, there are some steps you can take to mitigate your tax bill in good old Blighty. Here are eight ways to do it:

Make sure you've got the right tax code

If your benefits package has changed at work (for example you no longer receive free health insurance or gym membership) you could be paying too much tax. Your local tax office can help you work out the tax code you should be on.

Avoid tax on your interest

If you are a non-taxpayer make sure you're not being taxed on your savings interest. Fill in form R85 so your bank or building society pays your interest gross.

Save your children from tax

Children have a tax code too, so make sure they're not paying tax (as long as they're earning less than the taxable sum). Do bear in mind though that as parents, money from you will be taxed once interest earned tops £100 a year. Money given by grandparents or other family or friends however is not affected in the same way.

Use your spouse/partner in a tax efficient way

How? If they're a lower-rate taxpayer, then you could put some of your savings and investments into your partner's name. You can also shelter your money from capital gains tax by utilising both your and their allowances.

Use your annual ISA allowance

You can shelter interest and capital gains on savings and investments of up to £7,000 a year.

Compare stocks and shares ISAs

Utilise pension tax breaks

There are valuable tax-breaks available for pension savers. You get upfront tax relief at your highest marginal rate - meaning that as a higher rate taxpayer you only pay £60 for every £100 contribution made into your pension.

Reduce your inheritance tax burden

Write pensions and life insurance policies in trust to lessen the inheritance tax burden. Your insurer should be able to sort this out for you. You can also prevent too much going to the taxman when you die, by gifting money and assets to loved ones while you're alive. As long as you make any such gifts more than seven years before you die they won't be counted as part of your estate for inheritance tax purposes.

Gift Aid

When you give to charity, Gift Aid it. This way the government will boost your contribution by adding basic rate tax relief to the gift.

by Emma-Lou Montgomery

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