



# ADDING VALUE THROUGH THE PLUS FACTOR

## Personal Wealth Protection



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### Foreword

Welcome to Anderson Anderson & Brown LLP's latest Private Client briefing. With recently increased tax rates and the prospect of more to come, this issue focuses on the protection of personal wealth.

We hope you find the briefing useful. If you wish to discuss any of the issues raised please contact Lynn Gracie ([lynn.gracie@aab.co.uk](mailto:lynn.gracie@aab.co.uk)), Karen Groat ([karen.groat@aab.co.uk](mailto:karen.groat@aab.co.uk)) or Alison Beattie ([alison.beattie@aab.co.uk](mailto:alison.beattie@aab.co.uk)).

### Higher Paid Employees - Shares From Employer

Higher paid employees (those earning over £150,000 pa) are now paying 51% Income Tax and National Insurance on any unapproved share awards, i.e. receiving less than 50% of the value of the award in their hands. Those earning between £43,875 and £150,000 pay 41% Income Tax and National Insurance Contributions. Consider also the tax implications of any rise in value of those shares. Does anyone want to have to pay a further 28% Capital Gains Tax when the shares are sold?

Simple steps can, in some cases, save thousands of pounds in Capital Gains Tax:

Consider the example of a higher paid employee who has already suffered a 51% tax and NIC charge when shares were acquired under an unapproved share arrangement. The share value has now increased by £25,000 - Consider 3 methods of sale:

- (1) Sale by the higher paid Taxpayer - £10,100 Annual Exemption (AE) available

Gain Subject to Capital Gains Tax @ 28%	<u>£14,900</u>
Tax Due	<u>£4,172</u>

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(2) Transfer shares to basic rate taxpaying spouse with £10,100 AE

Gain Subject to Capital Gains Tax @ 18%	<u>£14,900</u>	
Tax Due	<u>£2,682</u>	<b>Saving £1,490</b>

(3) Sell sufficient shares to use AE and transfer balance to spouse to sell

Gain subject to Capital Gains Tax @ 18%	<u>£ 4,800</u>	
Tax Due	<u>£864</u>	<b>Saving £3,308</b>

Example 3 effectively **saves 80%** of the original tax charge. The Annual Exemption is currently available to all individuals but as the Government is looking for ways to generate more Tax Revenue, this exemption could be an easy target in the next budget. CGT rates may also rise.

## Sheltering your assets from HMRC

### What can you do to protect your estate?

When individuals consider their IHT position there is a temptation to put off doing anything for as long as possible. However, planning as far as possible in advance offers the best opportunity to minimise the exposure to IHT and to protect wealth for future generations.

You may also want to ensure that the assets are kept within the family. There are planning opportunities to ensure that assets intended to benefit children and/or grandchildren are protected from the risk of them becoming bankrupt or divorced. This would typically be achieved through the use of Trusts.

### What do you need to consider?

What are your aims for the future and the future of your family? How would your heirs pay the IHT bill? If your estate consists largely of assets other than cash these may need to be sold in order to settle the IHT bill.

### When might you consider planning?

- ⊕ Changes in personal circumstances
- ⊕ School Fees
- ⊕ Further education/maintenance
- ⊕ Selling business
- ⊕ Inheriting wealth



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An example of where lifetime planning could prove useful is in the case of a child going away to undertake further education. Many parents will now consider acquiring a property for their child to live in while at University. There are some tax planning opportunities in this instance that could potentially save capital gains tax and inheritance tax as well as protecting the wealth.

We can provide specific, tailored options which will hopefully reduce and/or minimise the potential IHT exposure and thereby protect the family's wealth.

### Wealth Protection

You have worked hard to build up your current wealth and want to protect that wealth to ensure that your children and grandchildren are well provided for.

#### What are the potential tax costs?

Have you considered what the potential tax costs are if you were to die without undertaking any Inheritance Tax (IHT) planning? Consider the following simple example:

We have assumed a net worth of £2m and that only one IHT nil rate band is available and that the residue of the estate is to be divided equally between 2 children.

		HMRC	Child 1	Child 2
Net estate	£2,000,000			
Nil Rate Band	£325,000			
Taxable estate	<u>£1,675,000</u>			
Tax at 40%	£670,000	<b>£670,000</b>		
Net after IHT	<u>£1,330,000</u>		<b>£665,000</b>	<b>£665,000</b>

Do you want HMRC to get a bigger share of your hard earned wealth than your children? If there are more children then their share is further diluted but HMRC's share remains constant.



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