

## Loophole of the Month - Take a year out

The age old problem in tax planning where you have a limited company under your control is: how do you get money out of the company without being clobbered for tax?

If you pay it to yourself as remuneration or salary from the company, you've got income tax at your full income tax rate, together with national insurance payable by both you and the company. If, on the other hand, you take it out as a dividend, you pay 25% income tax and no national insurance (normally), but the company doesn't get any tax relief for what it pays you.

So what a lot of people do is simply leave the money in the company. Arguably, of course, this is only deferring the problem, which gets bigger and bigger each year as the company's reserves build up and up.

It's true to say that, when you sell the company or wind it up eventually, you will be paying capital gains tax on the reserves in the company, effectively, rather than income tax, and this may be at either the 10% or the 18% rate (until, that is, the government's Random Tax Change Generator radically changes things again at some time in the future). But this may be a lot of money by the time you get to that point.

Going abroad for a short period to save this capital gains tax no longer works since changes in 1998 impose CGT in the year you come back, if this is no more than five years after you left.

But there's no such five-year rule for income tax. So if you go abroad for a period as short as a single tax year, you can take out the company's reserves by way of dividend in that tax year, providing you qualify as non UK resident, without any UK tax at all.

It doesn't matter if the company hasn't got enough cash to pay the whole of this dividend to you. It can pay you a so called "specie dividend" which you can then lend back to the company. The important thing is that the assets concerned have changed from being the company's to being yours, so that you can take them back out of the company again tax free, in repayment of the loan, as and when they are converted into cash, even though you may be UK resident by the time that happens.

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