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Best tax-efficient countries revealed in indices

Fiscal survey

Relocation outside western Europe is key to maximising income, reports **Matthew Vincent**

Wealthy investors seeking to minimise tax should relocate their businesses to Saudi Arabia, Russia or Mexico, and later retire to Dubai, Monaco or Austria – according to two new tax indices launched in recent weeks.

BKR International, an association of worldwide accountancy firms, has calculated how much income big shareholders and high earners in private businesses are left with after tax in 19 different countries.

Meanwhile, ABN Amro Private Bank has rated 13 tax regimes for individuals who want to retire to another country, live off investment income and then pass assets on to their heirs.

In both indices, Gulf states score the most highly on tax factors alone – and the UK and popular European destinations such as France and Spain are among the least advantageous for corporate and retirement taxes.

To help clients seeking the most tax-efficient places to relocate – or the most attractive new markets to enter – BKR International has based its index on "consumption availability": how much income is available for consuming goods and services, after paying all income taxes and additional levies such as VAT, sales tax and excise duty. For each country, it has worked out two figures: one for income earned through a corporate entity and distributed to shareholders via a dividend, and another for income earned directly by an individual, partner or sole trader.

Saudi Arabia provides the highest post-tax income in both circumstances – allowing shareholders to receive 80 per cent of any dividends, and individuals to keep 100 per cent of their income.

Paying dividends also pays off, in tax terms, in Russia, Mexico, Turkey and South Africa – where private company shareholders get the benefit of between 55.7 per cent and 61.7 per cent of their income.

Receiving an income directly is highly tax-efficient in Indonesia, France and India – between 60.5 per cent and 76.5 per cent can be kept, as well as in Russia.

However, remaining in the UK, moving to Germany, or venturing into the emerging market of Brazil is much more costly. Big shareholders and high earners in UK private business will keep less than 41 per cent of their income in 2011, while those paying tax in Germany keep little more than 43 per cent. But Brazil is the least hospitable regime – consumption availability is just 26 per cent for private company shareholders and 22 per cent for high earners.

"Privately owned businesses usually are driven by the owners' expectation of what will be left in their pocket after tax," says BKR's UK representative Bob Rothenberg, of accountants Blick Rothenberg. "For businesses that are setting up in new markets the index will be relevant where a senior individual is relocating."

Some countries now look likely to become marginally less attractive – due to tax increases required as part of deficit reduction plans. Next year, BKR International forecasts a reduction in consumption availability in the US, the UK and Ireland – with the possibility of worse to come in Ireland after next week's Budget.

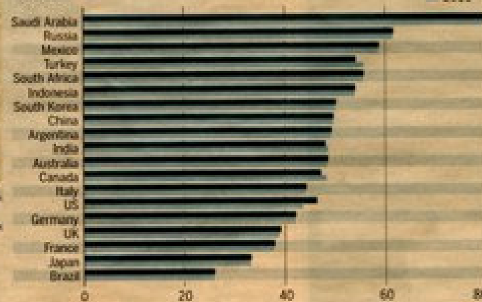
To help investors who are planning to retire to another country, ABN Amro has based its index on the tax treatment of asset transfers, investment portfolios, and bequests – as well as quality of life.

For each country, it has worked out a "best-case" scenario for wealthy retirees who reinvest 25 per cent of their assets in a property, put the rest in a portfolio split 2:1 between equities and bonds, and then leave all their assets to a spouse and two surviving children. Scores are awarded based on the strategies available to minimise income tax on interest and dividends, capital gains tax on investment and property profits, inheritance tax on gifts and estates – as well as "double taxation" treaties between countries (preventing individuals being taxed twice).

Dubai in the United Arab Emirates, Austria, Luxembourg and Monaco score the highest on tax factors alone – notching up more than 50 points on ABN Amro's index scale (see graph). But Austria emerges as the best retirement location overall, with a total score of 122 when factors such as economic and political environment, healthcare and climate are added in. By contrast, the UK scores only 88 overall, Portugal 85, France 82 and Spain 75.

Best tax regimes in the world

ABN Amro index scores for tax efficiency (out of 65)



Source: BKR International

> Austria emerges as the best retirement location overall when other factors are added in

"Taxation attributes include: where to die; inheritance tax, will I pay it or not; inheritance law, how will my estate devolve?" explains Fiona de Vos, vice-president of International Estate Planning at ABN Amro. "But there are other 'soft' factors: transport, health, education, political situation, safety and quality of life."

Tax treatments can vary widely between European countries, the index shows.

Retirement income incurs a flat tax in Austria (25 per cent), Spain (21 per cent or 19 per cent up to an income of €6,000), Belgium (dividends at 25 per cent and interest at 15 per cent), Cyprus (dividends 15 per cent and interest 10 per cent). But in France a rate of 30.1 per cent applies; in the UK the highest rates are 42.5 per cent for dividends and 50 per cent for interest income; and in Switzerland interest and dividends are added to an individual's overall taxable base.

Capital gains tax rates can also be varied, or avoided, with enough pre-planning. For example, ABN Amro notes that, in the UK, an individual with a global income in excess of £150,000 could face a tax bill of 28 per cent on capital gains, or zero by waiting to move to Belgium or Switzerland before selling his assets. Moving further afield can even eradicate tax on gains from "moveable assets", which are exempt in Monaco, United Arab Emirates and Cyprus.

Inheritance tax planning even has to take account of different countries' laws. Some governments have forced heirship rules, whereby certain heirs (in most cases children, but sometimes also the spouse), have rights to a fixed portion in the estate left on death. Belgium, France, Italy and Luxembourg are examples of countries that protect children's rights to an estate. In Dubai, sharia law may mean inheritance solely by a spouse applies.

De Vos says planning well in advance of a move is key. "If you move to France having done pre-emigration planning, you can die with no tax to pay," she points out. "But if you just move there, it's different".

Ask the expert

Formulate a plan to relocate

Relocating your finances to another country requires detailed preparation, says Karina Challons, head of tax and financial planning HSBC Private Bank. These are her top tips:

● **Keep tabs on tax rates**
"Entrepreneurs look at the amount of tax they will pay and the amount they won't pay. Then the family will decide if it is palatable. The 50 per cent rate [in the UK] upset a lot of people – I can't quantify how many left but know a lot of people didn't come."

● **Right place, right time**
"A lot of people are not necessarily moving for inheritance tax, they're moving for business and income tax – inheritance comes later. But people can gift more to children rather than wait for their demise."

● **Try before you fly**
"We always say go and visit the place, and ask: 'Can you live there? How easy is it to work there? Is it a place the family can live? How are the schools there?'"

● **Agree it in advance**
"We are seeing a lot more people preparing so that, if a decision is made, they've already investigated all the tax consequences for the business."

● **Look after your staff**
"It is a big move if you're moving your business and your staff. Are they willing to go? Entrepreneurs who are on their own are able to move more quickly."

● **Don't expect a quick move**
"People think decisions can be made quickly but it takes a whole lot longer. We found some people who have made all the moves, and gone out there with their spouse, ring up and say: 'We'll delay it for six months' – which turns into two years, then three."