



How to plan for the 50% tax rate

From 6th April 2010, a new 50% top rate of income tax will apply to those earning over £150,000. In addition, the tax free personal allowance will be withdrawn for those earning over £100,000. You may wish to consider some of the following strategies to minimise your exposure to the new rates.

Self employed and partnerships

- Consider changing to a 31st March year end. If you have an accounts year end of 6th April or later, you will already be paying tax at 50% on income above £150,000 for the current year. This should be considered carefully as it will have cashflow implications.
- If you know of any forthcoming expenses that will qualify for tax relief, delay until after 6th April 2010 to maximise that relief.
- Consider a less prudent approach to bad debts in the last accounting period ending prior to 6th April 2010 and review after that date.
- Consider incorporation, and shelter undrawn profits by paying corporation tax, at a maximum rate of 28%, instead of income tax and National Insurance (NI).
- A corporate member of a partnership could be formed by the partners to tax some non distributed profits at lower rates.
- Make the best use of trading losses. If possible, consider carrying a loss forward to offset against profits of the same trade after 6th April 2010.

Employees and companies

- Business owners should consider maximising the amount of salary and dividends they take out of the business prior to 6th April 2010, paying tax at 40% plus NI on income and 32.5% on dividends, rather than 50% plus NI on income over £150,000 and 42.5% on dividends, after 6th April 2010.
- Consider whether it is possible to advance payments of salary and bonuses, to be paid before 6th April 2010.
- If you have the flexibility, consider reducing your working hours. This will be an especially attractive prospect if it keeps income below £100,000. If you are over 50, you might think of taking a tax free lump sum pension to supplement your income.
- Salary sacrifice schemes may be used to reduce taxable income. Unfortunately, individuals earning over £150,000 are unable to sign up to new schemes as HM Revenue and Customs ('HMRC') have indicated that it will negate the benefits of salary sacrifice in these cases. You should also bear in mind that if salary is replaced by benefits, those benefits may be taxable.

- There are various ways of rewarding employees through share option schemes, which may result in the gain being subject to capital gains tax at 18% instead of income tax of up to 50%.
- Employee benefit trusts and EFRBS (Employer-Funded Retirement Benefit Scheme) can help provide future benefits to employees at a low tax rate.
- Investment funds that accumulate income might be attractive to some clients, as with careful planning it may be possible to defer the tax liability on that income into a year when the relevant tax rate is lower.
- Insurance bonds could be an option where investors are permitted to use 5% a year of their original capital for 20 years without a tax charge. When the bond is cashed, returns are treated as income at your highest rate. But if you expect your income to reduce below £150,000 in the future, the bond could be cashed at that time.

Other planning opportunities

- The rules regarding pensions were radically changed in the last budget. Higher rate tax relief is being restricted for contributions made by individuals. The main changes come into effect from 6th April 2011, but anti-forestalling rules apply from 22nd April 2009. However, anyone with total income of more than £150,000 should consider maximising payments for the current and next tax years. The new rules reducing tax relief on pension contributions do not come into effect until April 2011, so relief will be available at 50% until then on qualifying contributions.
- Consider becoming non resident. If this is a realistic option for you, please contact your usual Blick Rothenberg contact to discuss your circumstances.
- Where your spouse has a lower marginal tax rate, transfer income-producing investments into his or her name. This may include shares, let property, bank deposits, etc. Simply putting accounts held by the higher earner into joint names has the effect of splitting the income arising equally between spouses.
- Transferring income to a spouse can also be useful if your spouse is a partner in your business or a shareholder/employee of your company. HMRC have indicated an intention to challenge such arrangements so they need to be justifiable, and set up and documented correctly.
- Make use of ISAs. For those aged 50 or over, the limit has now risen to £10,200 and will do so for all from 6th April 2010.
- Investments producing capital growth are more tax efficient, as there is a huge disparity between the capital gains tax (CGT) rate of 18% and the proposed higher income tax rate of 50%.
- Enterprise investment scheme (EIS) and venture capital trust (VCT) investments offer income tax relief to investors at the rate of 20% and 30% of the amount invested, up to a maximum investment of £500,000 and £200,000 respectively. EIS investors can also obtain a deferral of capital gains arising in the last three years, which may be useful if capital gains tax has been suffered at 40% in the past. The tax paid can be recouped and the gain only becomes taxable once the EIS investment has been sold, with the rate of tax payable being that prevailing at the time – currently 18%.
- Trustees need to review their trusts to ensure that beneficiaries can reclaim the tax paid by the trust and may wish to consider restructuring or advancing distributions before 5th April 2010.
- Non domiciled individuals should consider making taxable remittances prior to 5th April 2010 to reduce their tax exposure.

Many of these strategies require careful planning and execution, so please be in touch with us to see how we can help you.

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