



Tax Planning Guide

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Welcome to this year's Tax Planning Guide

With the end of the tax year fast approaching and significant changes to the taxation of higher earners being implemented on 6th April 2010, there is no better time to take stock and reassess your current financial situation.

This year's edition of our annual publication contains topical articles that will provide you with ways to structure your affairs efficiently and mitigate any financial risks.

Nilesh Shah, Head of Tax

Planning for the 50% tax rate

From 6th April 2010, three new taxes will affect higher earners. Although these new taxes cannot be completely avoided, if you act now there is the potential to minimise your exposure to the new rates. Overleaf we examine the opportunities that are available in various different circumstances.

The changes that will come into force are a new 50% top rate of income tax that will apply to those earning over £150,000, the withdrawal of the tax free personal allowance for those earning over £100,000, and finally, tax relief on pension contributions will also start to be withdrawn (this third point is examined in more detail on page three).

(continued overleaf)

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Planning for the 50% tax rate (contd.)

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.

Residency / domicile issues

- Consider becoming non resident. If this is a realistic option for you, please contact your usual Blick Rothenberg contact to discuss your circumstances.
- Non domiciled individuals should consider making taxable remittances prior to 5th April 2010 to reduce their tax exposure.

Structuring income between spouses

- 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.

Investments

- 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.
- 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.
- 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%.

Many of these strategies require careful planning and execution, so please be in touch with us to see how we can help. Angela Beech, +44 (0)20 7544 8991, angela.beech@blickrothenberg.com

Pensions - tax year end planning

Pension contributions are a traditional and popular way of saving tax, with up to 40% tax relief available (i.e. a £10,000 pension contribution costs a higher rate tax payer £6,000). However, there are some recent developments to bear in mind this year.

- Within the last year, the Government has looked to cap the amount of 40% tax relief given to higher earners.
- For some, it may be better to pay additional pension contributions next year (i.e. after 6th April 2010) rather than this year in order to “rescue” the personal allowance.

Also topical is that the earliest age that you can draw retirement benefits from a pension plan rises from 50 to 55 on 6th April 2010.

Limiting higher rate relief for high income individuals

Nothing has changed for those with total annual income (from all sources) of less than £130,000 in the current tax year and the previous two, with full tax relief still being granted on substantial pension contributions.

The Budget of 22nd April 2009 introduced a limit on the amount of full higher rate tax relief (40%) for “high income individuals” (those with total income of £150,000 in the current or either of the previous two tax years). For such individuals, higher rate tax relief will be given on pension contributions of the greater of:

- £20,000;
- any regular (monthly/quarterly) contribution arrangements in place before 22nd April 2009; and
- the average of irregular (half-yearly, yearly and single) contributions paid 2006/07 to 2008/09 inclusive to a maximum of £30,000.

Contributions in excess of the limit will receive only basic rate relief (20%).

The Pre-Budget Report of 9th December 2009 extended the definition of “high income individual” to include those on total income between £130,000 and £150,000.

High income individuals should make the most of higher rate tax relief where it is currently available both this tax year and next: the Government is looking to restrict higher rate relief further still after 6th April 2011.

Under current Government proposals, from 2011/12, full higher rate tax relief will only be available to those on total income below £150,000 (at 40%), with no protection of pre-existing arrangements or a £20,000/£30,000 allowance. Only basic rate relief (20%) will be available to those on total income over £180,000. Tax relief will taper from 50% to 20% for those between £150,000 and £180,000.

Pensions and the personal allowance

From 6th April 2010, those with income over £100,000 will see a reduction in their personal allowance (i.e. the amount of income on which no tax is paid). For income over £112,950 there is no personal allowance at all. Pension contributions can be used to reduce income and so, potentially, “rescue” the personal allowance. If you are thinking of making a one off pension contribution (and are affected by the personal allowance issue) it may be better to defer the payment until after 6th April 2010 – the overall tax saving could be much greater.

Earliest retirement age

6th April 2010 sees the minimum age to claim retirement benefits increase from 50 to 55. If you are currently aged between 50 and 54 and considering taking retirement benefits soon, you will need to finalise the claim on or before 5th April 2010, or wait until age 55 for your next opportunity.

For further information, please speak to your usual Blick Rothenberg contact or Martin Reynard, +44 (0)20 7544 8804, martin.reynard@blickrothenberg.com

The family discretionary settlement

What, if any, measures should trustees be considering before 5th April 2010 and the introduction of the 50% rate of income tax?

Discretionary trusts are affected by the income tax rate increase and will apply to non dividend income, in excess of the first £1,000 received. The rate of tax on dividend income from the 6th April 2010 will be 42.5%.

With few exceptions, the income tax suffered on trust income is regarded as being held in a tax pool attached to the trust. Trust income paid to beneficiaries carries a tax credit, financed by this tax pool, currently at a rate of 40%, increasing to 50% after 5th April 2011. Appropriate income distribution planning should ensure that the beneficiaries are able to reclaim the major part of the income tax suffered by the trust (the tax pool).

Options trustees may wish to consider

- Distribute all retained income to the beneficiaries before 6th April 2010. This measure is appropriate if the beneficiaries of the trust are non tax payers or lower rate tax payers, as the beneficiaries can use their personal allowances and lower rate bands to claim most if not all of the tax paid by the trustees.
- Alternatively, where there is a significant amount of undistributed past taxed income, consider whether it could be worth delaying such payments until after 5th April 2010. The tax credit carried by such past income will increase from 66.67% to 100% of the net payment which could be attractive for beneficiaries with low incomes.

For further information, please speak to your usual Blick Rothenberg contact or Leo Joyce, +44 (0)20 7544 8863, leo.joyce@blickrothenberg.com



Tax year end healthcheck: Tax planning points to consider before 5th April 2010

As we approach the end of the 2009/10 tax year, now is the time to check that you have taken all the steps that you can to minimise your tax charges for the year. We have prepared a list of tax tips to assist you.

Have you and your family used your:

- Personal allowances. The personal allowance for the year is £6,475 and each individual resident in the UK (and some non residents) can earn up to £6,475 before having a UK tax liability.
- Capital gains annual exemptions. The exemption is £10,100 for each individual. Assets can be transferred between spouses so that both can use this exemption.
- Maximum investment into an ISA. The annual maximum per person over 18 is £7,200 (£3,600 into a cash ISA). Children between 16 and 18 can invest up to £3,600 into a cash ISA. From 6th October 2009 individuals aged 50 or over before 5th April 2010 can enjoy an increased ISA allowance of £10,200 (£5,100 into cash ISA).
- Annual gift exemptions for inheritance tax (IHT). The annual IHT exemption is £3,000. You can also carry forward any unused exemption from 2008/09. Separate gifts of £250 can be made to any number of individuals in the year.

Do you want to consider reducing your tax liability by:

- Making further pension payments, subject to income less than £150,000 in the year. Where you make payments to pension policies net of basic rate tax, higher rate tax relief will reduce your liabilities. The maximum you can pay into a scheme is 100% of your earnings up to £245,000. If you do not have any earnings, an individual (even a child) can save up to £3,600 (gross) into a stakeholder pension. Pensions are covered in detail on page three.
- Making donations to charities. If you are liable to higher rate tax, you receive £25 tax relief for every £100 you give. Gifts of certain assets including quoted shares can qualify for relief, based on the value of the asset donated.
- Reducing overall capital gains by realising available losses. If you have made a gain over £10,100 and have other assets standing at a loss, you could sell the asset to set the loss against the

gain. If you have any assets which are of negligible value you can claim a loss even if you continue to hold the asset. Where you have subscribed for shares in an unquoted company and these become of negligible value it may be possible to claim the loss against income.

- Setting up regular gifts out of income to reduce your overall inheritance tax bill. Where you make regular gifts from your excess income, the gifts can be made in addition to the normal annual exemption of £3,000.

Do you need to consider:

- Claiming tax credits. New claims can only be backdated three months. You need to notify HMRC if your circumstances have changed and you are already claiming credits. We recommend lodging a claim even if you don't have an entitlement, just in case your circumstances change.
- Topping up your child trust fund. Parents, family members and friends can contribute up to a total of £1,200 a year. Normally, where gifts from parents generate more than £100 of income for the child this is taxable on the parents - unless held within the child trust fund.
- Deferring disposals until after 5th April to delay the capital gains payment date by one year.
- Residency status. If you are intending to leave the UK (particularly to work), consider leaving before 5th April. Where individuals go to work abroad they are treated as not resident from the date of their departure provided they stay out of the UK for at least one complete tax year.
- Enterprise investment scheme (EIS) investments. 20% income tax relief is available on investments up to £500,000. It is possible to defer capital gains arising on the sale of other assets into EIS investments provided the EIS shares are issued within one year before or three years after the relevant gain. This could have the effect of moving a gain taxed at 40% in periods before 6th April 2008 to the rate of 18% under the current regime.

After 5th April:

Collate the information needed to prepare your tax return early if you complete one, especially if you:

- are likely to be due a refund;
- have a tax payment to make in July;
- have reduced your payments on account.

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