PERSONAL YEAR END PLANNING ALERT 2009-10

LARKING GOWEN

CHARTERED ACCOUNTANTS

TAX ALERT

The tax year ends on 5 April 2010. The following day marks the start of some significant tax changes, including the introduction of a 50% tax rate for those with income over £150,000. This alert looks at measures which can mitigate the effect of these changes.

A number of the points listed below relate to tax planning opportunities that have an impact at all income levels.

Top three fiscal changes from 6 April 2010 onwards:

- Personal allowances are withdrawn at the rate of £1 for every £2 of income over £100,000
- The top rate of income tax will be 50% for those with income above £150,000
- Dividends which would otherwise be taxable at the new 50% rate will be chargeable at a new dividend rate of 42.5%

Opportunities:

1. **Self-employed individuals could consider a change of accounting year end** to move the assessment of high profits into the current tax year. This may also give the ability to utilise any unused overlap relief. Do any possibilities exist to accelerate income and/or defer expenditure?
2. **Investing in a single premium insurance bond** gives access to tax-free withdrawals each year, provided these do not exceed 5% of the capital invested.
3. **Make sure that income between spouses/civil partners is balanced** so that bands up to the 50% rate are fully used by both. This may be by means of a real transfer of capital, or an amendment of profit sharing ratio between partners in a business (subject to anti-avoidance rules).
4. **Convert income to capital.** This means looking carefully at the investments you hold and considering the opportunities for moving into products that accumulate income over their life and generate capital at the end.
5. **Paying pension premiums** may be effective, although the restrictions on tax relief introduced by *Finance Act 2009*, and widened in the Pre-Budget Report 2009, may severely curtail this for those with high income.
6. **Tax exempt investments** could replace taxable income wherever possible. Of course, commercial considerations may affect this. Consider Individual Savings Accounts, National Savings Certificates or Venture Capital Trusts.
7. **Giving by Gift Aid** becomes even more effective for individuals, keeping more income taxable at lower rates.
8. **Interest on tax relievable borrowings** also becomes more tax effective. Loans that qualify include those that fund businesses (including those for property rental) or that provide working capital for partnerships or family companies.
9. **Companies could decide to increase dividends and reduce salary** albeit the benefits of dividends over salary are not as much as they used to be as all rates have increased.
10. **Companies could decide to advance the date of proposed dividends and bonuses** to a date before 6 April 2010.

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11. **Companies could make loans in place of salaries** but the circumstances would have to be right. There are corporation tax implications for companies lending to 'participators' and assessable benefit issues for the individual receiving the loan. Anyone with an existing loan could withdraw funds by way of loan repayment in place of the top slice of income.
12. **Share option holders should advance the date of exercising options,** provided this is still tax efficient.
13. **Employers should look at remuneration packages to ensure they are tax efficient** as it may be possible for an employee to exchange salary for tax exempt benefits, such as workplace parking or childcare vouchers, thus benefiting all parties.
14. **Losses on shares can be relieved against income** where they are subscriber shares in an unquoted trading company. This gives relief at the marginal rate of income tax straight away. Retaining the loss for capital treatment gives a smaller reduction in tax and may delay the relief.
15. **Restructuring a company now** - where this is already something you are considering - could be a worthwhile move if you can take advantage of the low CGT rate under a 'purchase of own shares' scheme.
16. **Incorporation of a business** can still be effective. This is less true than it was, as far as immediate distribution of income is concerned, but a company can still be a useful vehicle where there is no urgent need for income.
17. **Trusts**, whether they be new or existing ones, can still be used effectively. This obviously has implications for inheritance tax (IHT) planning, which is outside the scope of this alert.
18. **Family investment companies** can offer an alternative to trusts, but again must also be looked at in an IHT planning context.
19. **Give away income producing assets** if you have income that is adequate without these assets; once again, subject to IHT considerations.
20. **The sting in the tail...** is that the introduction of the 50% rate produces a double charge as far as cash flow is concerned when it comes to settling outstanding tax liabilities for 2010-11 in January 2012. Payments on account, based on estimates calculated at only 40%, will need a 'catch-up' payment on that date. Added to which, payments on account for 2011-12 will be calculated at 50%, with half of that falling due on 31 January 2012.

Finally

Don't miss the opportunity to insure against the cost of a tax investigation. Contact us for more details.

To find out more about any of the points in this alert, please speak to your usual contact at Larking Gowen or call Anne Richardson, Chris Richardson or Roger Jones on **0845 450 2471**. Alternatively, please email **privateclientservices@larking-gowen.co.uk**

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