Armstrong & Co Chartered Accountants, Auditors & Business Advisors

4A Printing House Yard, London E2 7PR T: 0207 613 2586 E: mail@armco.co.uk

The 50% income tax rate

Individuals with income in excess of £150,000 are subject to a 50% top rate of income tax, and 42.5% on dividends. In addition, the basic personal allowance for income tax is gradually reduced to nil for individuals with 'adjusted net incomes' above £100,000, meaning that the effective top tax rate could be as much as 60%.

Higher earners should therefore take action to help minimise the effect of the higher rates. This guide considers some of the strategies that may be available to you. For advice tailored to your individual requirements, please contact us.

Reducing your taxable income

Incorporation

Incorporating a business currently run as a sole trade or partnership is not always possible, nor always tax-advantageous. However, there are potential benefits – overlap relief will be realised on the cessation of the original trade; paying capital gains tax at 10% now on the value of goodwill transferred to the new company may mean that 'income' for the next few years might be provided by repayment of loan capital; and it may be that profit extraction through the use of dividends or an eventual liquidation could also reduce your tax liabilities.

A change of accounting date or incorporation both need careful thought and a thorough review of your figures and expectations for your business – talk to us if you would like to consider either of these options.

Restricting income

If you run your business through your own company, you may wish to consider restricting your income to below either of the two key thresholds of £100,000 or £150,000 by reducing your salary and dividends and leaving any surplus cash in the company.

Transferring income

If your spouse or civil partner has a lower marginal tax rate, you could consider either transferring ownership of income generating assets such as shares, let property or bank deposits to your spouse, or changing them to joint ownership. Where your spouse is involved in your business, care must be taken to ensure that you comply with all of the necessary legalities. Where assets are transferred, the transfer must be a 'real' one, ie. both ownership and enjoyment of the related benefits must pass to your spouse.

Remuneration options

Salary sacrifice schemes have traditionally been a means of reducing national insurance contributions and possibly income tax. They operate on the basis of replacing taxable income with certain benefits in kind. The benefits may themselves be taxable, so it has been important to factor in tax efficiency when considering the savings. However, salary sacrifice schemes set up on or after 22 April 2009 are unlikely to

4A Printing House Yard, London E2 7PR T: 0207 613 2586 E: mail@armco.co.uk

be effective as the salary sacrificed has to be added back in calculating relevant income for the purpose of the £150,000 limit.

The restrictions on pension savings may make share based reward schemes more attractive forms of remuneration, allowing income to be taken as a capital return. Approved share schemes could result in a capital gains tax liability of 18% or 28%, compared with a potential income tax liability of up to 50%.

Pension payments

Maximising pension savings could reduce your marginal rate of tax. Please contact us for further advice.

Further strategies

Tax-efficient investments

Investments that result in gains taxable at the capital gains rate of 18% or 28% may be preferable to those which will give an income taxable at up to 50%. The Enterprise Investment Scheme and Venture Capital Trusts may be attractive options, as they can offer income tax relief as well as potential capital reliefs, though the investments are, typically, in less established companies.

Remember to maximise your annual ISA allowance, which expires on 5 April each year. The allowance for all adult savers is £10,680.

Give… and receive

You might also consider making charitable donations via the Gift Aid scheme, which can result in additional personal tax relief. If you pay tax at a rate of 50% and give £1,200 (net) to charity over the course of a year, you will be entitled to £450 further tax relief.

Emigration

Finally, if you are planning to spend some time working outside the UK, you may consider a period of non-residency as part of your strategy. However, this is a very complex area, particularly in view of recent clampdowns by the tax authorities. Action should not be taken without professional advice.

We can help you to minimise the impact of the new tax rates. Talk to us now for advice on making the most of the opportunities available to you and your business.

For further information on any of the issues raised in this guide, and to discuss strategies that suit your individual circumstances, please contact us. We will be delighted to assist you.