

## End of Tax Year Insight

The end of the 2009/10 tax year is fast approaching. In this Insight we take the opportunity to remind you of some of the things which you ought perhaps to think about doing if saving tax is a priority, as well as giving you an update on one or two important news items. Some of our action points need to be completed before 6 April, others can be left until the new tax year. But please, if you have any questions or would like to talk through anything in this Insight, please speak with your usual Buzzacott contact without delay.

### Key points:

- New top tax rate of 50% (42.5% on dividends) on income over £150,000 from 6 April 2010
- Personal allowances are scaled back from 6 April 2010, when income exceeds £100,000
- Pension premium tax relief restricted if income exceeds £130,000
- Gaines-Cooper case raises questions over "leaving" the UK
- Taking time to pay your tax - and acting sooner to minimise your July payment
- Where there's a Will...there may be a tax saving

### 50% Income Tax

You cannot have missed hearing that the top rate of income tax rises to 50% from 6 April 2010 (42.5% for dividends). But is there anything you can do to reduce the impact of the rise?

### First, you can think about accelerating income

If you have some control over when your income arises, it could be worthwhile advancing payment into the 2009/10 tax year, and thus attracting a 40% top tax rate on income (32.5% on dividends). How could you achieve this? Perhaps by:

- receiving salary or bonuses early
- paying dividends early, or
- changing your accounting date.

But these changes are not without potential disadvantages. Whether in the form of salary, bonus or dividends, drawing profits early may create a potential cash flow problem for your business, but you may be able to lend the net income back into your company. Changing your accounts date may create a high 2009/10 liability because of the acceleration of profits, but this could be reduced or eliminated through cashing in overlap relief.

All of these ideas have potential benefits and potential downsides - talk to us in good time if you would like to know more about them.

If you have a significant amount of cash on deposit, find out if you can close the account before 6 April, so all accrued interest will be received in 2009/10 - but beware penalties for early closure. The cash can then be re-deposited into a new account if you wish.

### Then defer expenditure and claims

Timing can be crucial if you want to maximise the value of tax claims - loss relief claims, expenditure, etc. and this year there is a dilemma - claim/spend early to get your tax relief sooner, or delay to get relief at 50%. We can help you decide so do get in touch.

### Alternative structures

If you are in business, consider:

- bringing your spouse or other family into partnership, if possible, so profits can be spread across more individuals if this would achieve a lower effective overall tax rate
- incorporation, if possible and appropriate, if this would enable you to reduce your tax bill by extracting profits through dividends or deferring income (perhaps also converting current income to future gains, for 18% CGT\*). Not all businesses are ALLOWED to incorporate, but savings may be achievable if yours is one that can
- if you are already in a partnership or LLP, introducing corporate partners to create opportunities to defer and/or reduce tax.

If you are an employee, consider:

- asking your employer to set up a share incentive scheme. This could enable future growth in share values to be taxed at CGT rates and/or dividends in part replacing remuneration

## Looking at your investments

The purpose of this briefing is NOT to give investment advice, but to highlight tax issues. With this in mind, consider:

- income tax will reach 50% in 2010/11 whereas capital gains are expected to be taxed at a lower rate\*. Therefore consider investing for capital growth, not income
- life assurance based investments which allow a 5% withdrawal free of tax for 20 years (the surrender proceeds are, typically, then taxable, in full, as income)
- equalisation of portfolios - if you have all the income and most of the investments, and your spouse is paying tax at basic rate only, consider gifting income-producing assets (outright gifts or gifts into joint ownership - the latter can allow you to retain up to 99% ownership, but shift 50% of the income for tax purposes)
- for those investors who are perhaps more open to risk, investments in shares under the Enterprise Investment Scheme or in Venture Capital Trusts, to attract income tax and capital gains tax reliefs and, with EIS, CGT deferral.

\* Capital Gains Tax is currently charged at a maximum of 18%. Although there is some expectation that this rate will rise, the amount of any increase is not clear. We would be very surprised, also, if countering measures were not to be introduced in the event that capitalisation of income becomes widespread.

## Losing your allowances?

As announced, personal allowances will be scaled back by £1 for every £2 income exceeds £100,000, from 2010/11.

The standard personal allowance for 2010/11 is not yet known, but taking the 2009/10 rate of £6,475:

Income £100,000	Allowance £6,475
Income £105,000	Allowance £3,975
Income £110,000	Allowance £1,475
Income £112,950	Allowance £ nil

If you are on the borderline there are things you can do to keep your income under £100,000 for this purpose - Gift Aid donations or replacing personal pension premiums with employer contributions under a salary sacrifice arrangement, for example, or re-arranging your investments so income flows to your lower-income spouse.

## Take a look at your pension

The new rules (2009/10 to 2010/11) are complex, but basically anyone with income over £130,000 needs to be very careful to stay within them! Regular premiums may continue, for now, to attract tax relief, but there is little scope for large, irregular, payments.

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However, pensions and EFURBS have a place in tax and financial planning, so ought not to be overlooked.

The salary sacrifice route - getting your employer to make pension payments you would otherwise have made yourself and taking a matching cut in pay - may have a part to play, but is ineffective for those with gross incomes, including any and all pension contributions, of more than £150,000.

Generally, contributions are limited to £20,000, or your established regular contributions, or irregular contributions of up to £30,000, depending on your circumstances.

The restrictions only apply if your income exceeds £130,000.

See also the Year End Tax Planning Insight from Buzzacott's Expatriate Tax Services Team on our website at

[www.buzzacott.co.uk/insights](http://www.buzzacott.co.uk/insights) for the expat viewpoint.

## Gaines-Cooper

A recent Court of Appeal ruling has, for now at least, placed a new importance on severing ties with the UK for those leaving the country and wishing to claim the cessation of tax residence.

Mr Gaines-Cooper had relied on the HMRC, previously Inland Revenue, guidance that so long as his return visits to the UK did not exceed 90 days per tax year (averaged over four years) he could claim to be non-resident. However, the Court of Appeal ruled that England had remained the "centre of gravity of his life and interests" and therefore his claim to be non-resident failed.

While Mr Gaines-Cooper seeks leave to appeal to the Supreme Court, matters remain uncertain. But it is clear that HMRC are taking a much keener interest in those who claim to be non-resident and increasingly seeking evidence that claimants have severed ties with the UK.

A similar trend is also evident with reference to claims to be non-domiciled, and we expect the new High Net Worth Unit of HMRC to look very closely at either claim.

See also the Insight from our Expatriate Tax Services colleagues on our website, for the expat viewpoint.

## Taking time to pay

The Government has said a number of times that they want to help smaller businesses and the original "time to

pay" arrangements - under which self-assessment tax due on January and July 2009 could be paid in instalments - meant that a number of our clients were able to spread their tax payments during cash shortages. We had expected a continuation of a straightforward process in January this year, but as weeks went by we found an increasingly hard line being taken by HMRC, and a number of applications were rejected. Nevertheless, the Business Support Unit may be able to agree terms, if your next tax payment is going to create problems for your business - we need to apply before the payment is due, and to agree in advance the grounds for the claim and the projections for your business, so let us know in good time if you want us to make a claim.

We may also be able to agree terms for payments of other types of tax, including self-assessment liabilities of people other than those who are self-employed.

Payment does not have to wait until the due date - those paying by direct debit can set up a Budget Payment Plan and make weekly or monthly payments in advance of the six-monthly self assessment payment dates.

Also available, from April 2011, will be a new spreading - Managed Payment Plans. Instead of making the first payment on the normal due date, payments will be spread either side of the due date. So, for example, a £24,000 payment due on 31 July 2011 might be paid in six monthly instalments beginning on 30 April 2011.

## Reducing your next tax payment

We make no promises, but given your 31 July tax payment is based on your liability for 2008/9, there might be scope to reduce your July tax payment if we can complete your 2010 tax return in the months of April to July.

Payments on account are automatically set at 50% of the previous year's liability, but if we have reason to believe that your 2009/10 liability will be substantially less, we can make a claim to reduce your payments on account. Better yet, if we can complete your Return in the first months after 5 April we can fix your final liability sooner (or claim a refund!).

## Where there's a will ...there may be a tax saving

As your tax advisers, we can help you make plans to minimise all your taxes - including inheritance tax, through planned lifetime gifts and a tax-efficient Will. But before we can do that, we need to have a copy of your Will on file, and we also need to be kept up to date on life events - births, and deaths, marriages and separations, etc - so we can identify when changes in your Will might be considered.

Why not let us have a copy of your current Will now? And if you do not have one, or if you know that your current Will does not really fit current circumstances, we would be more than happy to work with your solicitor so that a new, tax-efficient, Will can be drawn up.

If you do not already have a solicitor, we may be able to help you to find one who has experience of this kind of work.

A Budget is due on 24 March - whether or not that sets out the plans of the party which will govern after the Election remains to be seen.

Whatever your view, if you are planning any major transactions or are just worried about how the changes we already know about will affect you, your family or your business, please get in touch with your usual Buzzacott contact now.