

Buzzacott Private Clients



HOW FAR WILL YOU GO TO REDUCE A 60% TAX BILL?

“PEOPLE CANNOT AFFORD TO IGNORE THE OPPORTUNITIES OFFERED BY TAX AND FINANCIAL PLANNING”.

It is less than three years since the lowest tax rate paid by most people was 10%, with the basic rate at 20% and the highest rate 40%. In 2010/11 very few people get any advantage from the 10% rate (it now applies only to the savings income of those with the smallest taxable incomes) and the highest rate charged on income is now 50%. But there is an effective 60% rate for those with incomes between £100,000 and £112,950.

People cannot afford to ignore the opportunities offered by tax and financial planning. We can advise on proven strategies to minimise taxes and maximise your long-term financial health through:

- making the most of tax breaks for you and your business
- planning to extract profits from your business tax-efficiently
- making the most of tax-advantaged savings (including pensions)
- reducing the inheritance tax due on your estate.

Tax and financial planning are essential parts of managing your business and your personal finances. They are also key to keeping your wealth in the family – talk to us about personal, business and family wealth planning.

Shared experience.

FAMILY WEALTH

For anyone with children and grandchildren, the concept of "family wealth" should be one of the keys in your long term financial planning as well as a factor in your current tax planning.

What do we mean by family wealth? Some years ago, John Major talked of "wealth cascading down the generations". We see family wealth planning as arranging your affairs and those of your children and grandchildren so that wealth is maximised and retained, so those with income keep as much of it as possible, within the family; those with wealth keep as much of it as possible, and perhaps also see their wealth benefitting the next generations during their own lifetime, with a lifetime gift plan based on minimising future inheritance tax but retaining enough personal wealth to secure comfort in retirement.

Give yourself a rough idea of the amount of inheritance tax which may be due on your death. Visit www.buzzacott.co.uk/specialist-teams/private-clients

"WE SEE FAMILY WEALTH PLANNING AS ARRANGING YOUR AFFAIRS AND THOSE OF YOUR CHILDREN AND GRANDCHILDREN SO THAT WEALTH IS MAXIMISED AND RETAINED WITHIN THE WHOLE FAMILY".

What might family wealth planning involve?

Each plan is tailored to individual circumstances, but might involve:

- employing family members in the business or bringing them into partnership to spread the tax load, take advantage of personal allowances and lower tax rates and perhaps also begin a planned succession to the next generation by involving them now.
- creating ring-fenced funds to pay for education, perhaps using a trust or even a simple bare trust to hold money during a child's education.
- parents helping children and grandchildren to buy their homes. Recent press comments have suggested that young people may no longer expect to be able to buy their homes, or that the age at which they should expect to do so will be much higher. But gifts of capital now may diminish the donor's estate potentially liable to inheritance tax and help family members get onto the property ladder.
- Will planning. Your Will is your last chance to be tax-efficient. Apart from charitable

and other strategic gifts, tax-efficiency might also be improved by, to some extent, skipping the next generation in favour of their children.

- transferring assets to the spouse who will pay less tax on income/gains. It is vital here to realise that you are not "putting your savings into your wife's name". To be effective for tax, you must give away your entitlement to the asset and such income as it may produce. As an alternative, where it is possible, transfer into joint names but retain 99% of the ownership to take advantage of the tax rules which would nevertheless treat 50% of the income as your spouse's for tax. Remember – top tax rates are now 50% for most income, and 28% for capital gains so if income or gains can be covered by your spouse's allowances or exemption, or reduce the tax rate to 20% or 18%, the savings can be significant.

Note that the tax rules for married couples and those in civil partnerships contain more breaks for transfers than those for single people or unmarried couples.



AVOIDING THE 60% TAX RATE

You will not see the 60% tax rate on the HMRC website, but this is the effective income tax rate for a select band of taxpayers whose taxable income is between £100,000 and £112,950.

There are two key routes to steer clear of the 60% rate – reduce income or increase allowances. Reducing your income might not appeal, but if your income fluctuates anyway you might defer income from one year until the next. There is limited scope for increasing allowances, but pension premiums and gift aid donations – which score for 20% immediate relief on payments and the balance through self-assessment – would be effective.

If you expect your income this year to fall into the critical band, we can help you to estimate the “right” result - £100 invested in your pension for £40 net cost to you, or £103 to your chosen charity for a net £40 cost to you. (The last date for the 3p in the pound supplement the Government gives charities is 5 April 2011).



PENSION SAVINGS

Most of our clients saving for their retirement do so through one of the money purchase pension schemes – personal pension plans, SIPPs, etc. For 2010/11 the “anti-forestalling rules” apply to many of them, so what are the pension saving limits for high earners?

For 2010/11 “regular” premiums attract tax relief at up to 50% on up to £255,000 of premiums. Regular premiums are those paid at weekly, monthly or quarterly intervals, and at rates which applied before 22 April 2009.

Irregular premiums are either premiums paid at less than quarterly intervals or (in some cases, only) the amount representing any amount by which more frequent

premiums exceed the pre-22 April 2009 rate. There are complex rules to calculate the amount of such premiums which will attract tax relief, but very briefly the limit is somewhere between £20,000 and £30,000, reduced by the amount of regular premiums paid. Premiums paid in excess of the limit lose all tax relief – even the 20% relief at source is clawed back.

For 2011/12 new rules have been proposed under which all pension premium relief will be capped at £50,000 of premiums each year. However there is scope to make up for previous shortfalls – using the £50K cap, one can look back to the preceding three years and bring forward “unused relief”, subject to having a “pension

input amount” in the relevant year(s).

Note that both rules operate by reference to “pension input periods”. The annual allowance (cap) is applied to the premiums paid in the pension input period(s) ending in the tax year.

The reduction in the lifetime allowance (cap on overall tax-advantaged pension savings) to £1.5 million will apply from 6 April 2012.

TAX-EFFICIENT PROFIT EXTRACTION



As a business owner your sights are likely, and quite correctly, firmly set on maximizing profit while you take profits from the business through salary and the occasional "bonus". But have you considered that there may be less expensive ways to extract profits – salary and bonus do, after all, carry a high National Insurance (NIC) cost.

Possible savings can be achieved by business owners through:

- taking a dividend instead of a bonus
- retaining profits, to attract capital gains

tax rather than income taxes

- incorporating a sole/partnership business
- making the most of tax-free allowances (eg mileage allowance for business travel)
- pension contributions
- charging rent for personally owned property occupied by the company (though this can, in turn, increase eventual CGT liabilities.)

Not all of these strategies might be appropriate for your business – we would be happy to discuss with you those that do.

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NEXT ISSUE

Below is the first in a series of articles focussing on tax and your residence. If you have any suggestions for other areas you would like us to cover, please contact John Karolczuk Bowman.

WHAT IS A PRIVATE RESIDENCE?

First, it can be a house, flat, houseboat or perhaps even a caravan. If it is a flat, it can also be an adjoining flat, where its use means two flats are in fact occupied as one. It includes the gardens, up to 0.5 hectares on general principles or such larger area as is required for its enjoyment BUT not if the land is a plot at the end of the garden which is sold off for development.

A property must be your private residence – not a holiday home, but something more permanent.

You may have only one property as your principal private residence (PPR) at any one time. If you in fact have two or more private residences (London flat and house in the country, occupied every weekend, for example) you may elect for one or the other to be your principal private

residence. Time limits apply for making and varying your election. The rule is one PPR per person, or per married couple or civil partnership.

To qualify as your potential PPR, a property must, at some stage, be occupied as your residence – there is no "length of time" required, but HMRC look for some "quality of residence" rather than simple occupation.

Get in touch

If you require further information regarding any of the articles included in this publication we'd be happy to help, please contact us at:

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