

Planning for the 50% tax rate for those who are in business and whose income is over £100k

The 50% income tax rate is set to be with us from 6 April 2010, as are the restrictions on tax relief for pension payments. Therefore there is an opportunity to save tax by crystallising income in the current tax year.

In broad terms, after 5 April 2010:

If your income is over £100k your personal allowance will be withdrawn which results in a 60% effective tax rate on income between £100–113k.

Income over £150k will suffer an income tax rate of 50% (plus 1% employee's NIC on earnings).

In the current tax year to 5 April 2010, if you are a higher rate taxpayer the maximum income tax rate is 40% (plus 1% employee's NIC on earnings).

It therefore makes sense to consider paying a dividend or bonus before the changes come in and these points may be relevant:

- Consider the financial requirements of the business, cash flow/bank borrowings.
- The effect on the company's balance sheet needs to be considered. Whether the dividend is paid before or after the balance sheet date may affect the company's credit rating.
- A dividend can only be paid if Companies Act requirements are met (for example sufficient distributable reserves).
- It is important to get the paperwork right.
- If the business needs the money, all or part of the dividend can be lent to the company. The higher rate tax due by the shareholder on the dividend needs to be paid by 31 January 2011 so this needs to be budgeted for.
- 1 April is the last day for bank transfers in the current tax year due to Easter bank holidays.
- If paying a bonus early, check out the HR implications and remember that PAYE & NIC will be payable early too.

You could also consider whether it makes sense to close an interest bearing account before 5 April so that interest is taxed this tax year instead of next.

PENSION CONTRIBUTIONS – TOTAL INCOME OVER £130k

Up until April 2009, tax relief was given at someone's highest rate of tax, 40%. Special rules are now in which can involve looking at income for the 2 previous tax years. In the current year most people will be able to make a contribution of £16,000 (gross equivalent £20,000) and still obtain tax relief at 40%. Paying more than this sum will depend on past contributions and level of income. It is important not to cease paying regular pension contributions without taking advice as once you lose the ability to obtain higher rate tax relief it may have gone for ever. There is also scope to obtain higher rate tax relief this year and next on non-regular contributions, depending on your personal circumstances. Your normal pension provider should be able to advise further.

ACTION:

If you would like nortons to look into what can be done in your particular circumstances to reduce the impact of the new 50% rate, please contact us as soon as possible.

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