

Where did you hide the tax rises Darling?

Better than expected economic results were translated into a Budget that contained a number of political giveaways to tempt you to vote Labour in the forthcoming General Election. The increase in Entrepreneur's relief from £1 million to £2 million was definitely aimed at business owners. The real tax rises are likely to be more prominent in the second Budget of the year, which is widely expected to occur after the General Election.

Alistair Darling's Budget speech skirted around the impending tax rises, previously announced. The Budget fine print contained a couple of the painful changes for the future, such as the new 5% Stamp Duty Land Tax rate from April 2011.

As usual there was masses of detail to wade through, 161 pages of budget notes, and 42 pages of press notices, not to mention hundreds of pages of supplementary documents, before you even consider the budget report itself. In this edition of Pay Less Tax we review the changes and what action you can take to save tax.

61% personal tax for the foreseeable future!

The 50% personal tax rate was confirmed as coming into effect from 6th April 2010 and is expected to be with us for some time. This will be one of the highest personal tax rates in Europe, which could have a serious impact for the competitiveness of the UK, not least for those businesses that meet tax on behalf of employees on certain benefits. Those employers could face an effective tax rate of up to 126%.

What the Chancellor omitted to mention was that for those with incomes between £100,000 and £112,950 they will effectively be paying 60% tax on that income. This arises because of the gradual withdrawal of the personal allowance for those with incomes over £100,000 from 2010. This may even increase to 61% if all of your income is earned income as a result of the extra 1% National Insurance. Or 61.5% from 2011 when the extra 0.5% increase in National Insurance kicks in.

Apart from the new 50% tax rate for incomes over £150,000 and the withdrawal of the personal allowance where total incomes exceed £100,000 the other limits and tax rates are largely unaltered.

Quick Tax Tips

If your personal income is likely to be between £100,000 and £112,950 in the tax year from 6th April 2010, then it may be worth looking at ways to reduce your income in that year to below £100,000, which could include making personal pension contributions.

From 6th April 2010 there will be an increase in the tax rate for Trusts to 50%. Many Trustees may wish to consider the impact of the tax increases and what options are available.

With the increase in the personal tax rate to 50% for incomes over £150,000, comes an increase in the tax payable on dividends. Prior to 6th April 2010 the top rate of tax payable on dividends is 32.5%. This will increase to 42.5% on dividends where the individual's income exceeds £150,000, which is an effective rate of around 36% on the net dividend payments.

Quick Tax Tips

For limited company owners we offer a remuneration review to identify the most tax efficient combination of options to extract funds from the company to minimise your overall tax burden.



High earners will suffer on their pension contributions

From 6th April 2011 tax relief on pension contributions are to be restricted for high income individuals. The previously announced provisions are to be included in the 2010 Finance Bill. For people with income between £150,000 and £180,000 the tax relief on pension contributions, including employer contributions, will reduce gradually. For those with incomes over £180,000 they will suffer restrictions on their pension contributions so that they only receive 20% tax relief in the same way basic rate taxpayers do.

For the purposes of these changes income will be calculated before deduction or relief for pension contributions and charitable donations. For those in employment income will include the value of any pension benefit funded or eventually funded by their employer.

An individual receives relief at their marginal income tax rate on their pension savings. Relief for these high earners could be at 20% from 2011 instead of their new marginal rate of 50%. Broadly, for every £100 pension contribution from April 2011 it will cost the higher earner £80 rather than £60, as is currently the case.

In the meantime there are complex anti-forestalling provisions for those with incomes over £130,000 and making substantial pension contributions.

Quick Tax Tips

There may be a number of alternatives open to you depending upon your full circumstances. We would be happy to review your situation further and advise on your options.

Inheritance Tax limit frozen

The current level for the Inheritance Tax nil rate band is to be frozen at the current level of £325,000 until 5th April 2015. The nil rate band is normally increased automatically each year in line with inflation unless an alternative nil rate band is provided for. Does this mean that the government don't believe that the Economy will recover before then?

Quick Tax Tips

We offer an Inheritance Tax Health Check to assess your current position and identify what action, if any, may be required.

Investment limits for Individual Savings Accounts (ISA's) increase

As previously announced from 6th April 2010 the amounts that can be invested into ISA's will increase to £10,200 per tax year for all savers, of which up to £5,100 can be saved as cash. Although these higher limits have been available to those aged 50 or over from 6th October 2009, they will be available to everyone from 6th April 2010. This will increase the amount an individual can save without suffering income tax or capital gains tax on their investment.

From 6th April 2011 the ISA limits will increase annually in line with the Retail Prices Index for September preceding the start of the tax year.

Quick Tax Tips

As anyone 16 or over can open an ISA and earn interest tax free it is well worth older children considering opening an account.

Quick Tax Tips

All taxpayers may wish to consider having an ISA as there would be no income tax or capital gains tax on their investment.

Entrepreneur's relief doubles from 6th April 2010

The good news for many business owners is that the lifetime limit for Entrepreneur's Relief will increase to £2 million from 6th April 2010. Where individuals or trustees make qualifying gains after 5th April 2010, they will be entitled to the new £2 million lifetime limit. This may be the sweetener before a possible increase in Capital Gains Tax rates after the election in May this year.

Quick Tax Tips

If you are looking to sell your business in the coming years then it may be possible to take action now to reduce the Capital Gains Tax further. The planning could include transferring shares to your spouse to make full use of their allowances and if possible double the amount of Entrepreneur's Relief available. However careful planning would be needed to make sure that the transfer was beneficial.



Quick Tax Tips

If you believe, as some do, that Capital Gains Tax rates may increase then it may be possible to secure your gain at today's rates.

Stamp Duty Land Tax - the good and the bad

The good news is for first time buyers, who will not be liable to Stamp Duty Land Tax for residential property bought as their home up to £250,000. The measure is being brought in for 2 years from 25th March 2010 and is conditional on the first time buyers intending to occupy the property as their main home. The 1% rate will continue to apply for all other residential property purchases from £125,000.

The bad news for purchasers of residential property over £1 million is that the rate will increase to 5% from 6th April 2011. At present the highest SDLT rate of 4% applies to purchases where consideration exceeds £500,000.

Increased penalties for offshore tax evasion

Higher penalties are to be brought in from April 2011 for companies and individuals with undeclared offshore income or gains. As now, penalties will be based upon the behaviour of the taxpayer, the degree of disclosure and the amount of tax lost. However the penalties will also be determined by where the offshore income or assets are. The proposed changes could result in penalties of up to 200% of the tax for deliberate failures where a jurisdiction shares no information with HM Revenue & Customs.

Annual Investment Allowance doubled

From April 2010 the amount of Annual Investment Allowance (AIA) available will double to £100,000. The increase will take effect from 1st April 2010 for companies, and from 6th April 2010 for unincorporated businesses.

Where accounting periods span the date of change then the businesses will be entitled to claim the appropriate proportions of the current £50,000 limit and the new £100,000 limit. Businesses are free to allocate the AIA in any way they wish, leaving them free to maximise their tax savings by ensuring that the allowance is allocated against assets that would normally qualify for the lowest relief's.

For some businesses investing more than £250,000 in plant and machinery it may be worth looking to take advantage of the first year allowances that will end shortly. It may be possible to claim the 100% AIA on the first £50,000 and 40% first year allowance on the excess. There will be certain conditions and exceptions, such as cars and assets to be leased will not qualify.

Anti-avoidance measures are being brought in to restrict losses that result from Annual Investment Allowances arising from certain arrangements entered into on or after 24th March 2010.

Company tax rates remain unchanged until 2011

The rates of corporation tax remain unchanged this year. The main rate of corporation tax will continue at 28% until 2012. The corporation tax rate for smaller companies is to stay at 21% until 1 April 2011 when it will increase to 22%. Despite this there are still significant tax savings to be enjoyed by transferring a business into a company.

First Year Allowances for zero carbon vans

A 100% First Year Allowance will be available for businesses buying new zero-emission goods vehicles. The measures are intended to come into effect from 1 April 2010 for companies and 6 April 2010 for unincorporated businesses. The vehicle cannot produce CO2 emissions when driven and should be primarily suited to the conveyance of goods and burden.

Benefits in kind for zero emission vehicles and low emission cars

From 6th April 2010 where an employee is provided with a company car or van that cannot produce CO2 emissions when driven then the employee will not suffer a benefit in kind for personal use of the vehicle.



If the company car provided produces emissions of 75g per kilometre or less then the appropriate percentage used to calculate the benefit will be 5%. This percentage is multiplied by the car's list price to establish the amount of benefit in kind that the employee would be charged for private use.

Other issues for businesses

The Business Payment Support Service and Time to Pay arrangements are to continue through the next Parliament.

For larger businesses where the debt exceeds £1 million then an independent review will be required.

Legislation is to be brought in to target employers who have a serious history of paying late or not paying their pay as you earn (PAYE) or national insurance liability. The measure will allow HM Revenue & Customs to require financial security from the offending employers. This would be in line with the current practice for VAT. We are assured that the measure is for serious risk cases and not innocent employers who merely need time to pay.



Increase in Child Tax Credits

On top of the already announced increases to Tax Credits from 2010, further increases to Tax Credits are proposed, but not until 2012. Families with one and two year olds are to receive an additional £4 per week in Child Tax Credit from 2012.

Quick Tax Tips

Consider making a protective claim for Tax Credits now. Your Tax Credits claim is based on the prior tax year unless there is an increase in your income in excess of £25,000. You could, alternatively, claim for your assessment to be made on your current income levels. It can be worth considering your claims carefully to ensure that you don't lose out.

VAT Registration and Deregistration Limits Increase

From 1st April 2010 the threshold for registering for VAT will increase to £70,000 and the deregistration limit to £68,000. The VAT rates have been left unchanged, however it is being reported that the standard rate may increase from 17.5% to 20% this summer.

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Quick Tax Tips

Consider using the flat rate VAT scheme if your business has few costs and turnover is less than £150,000 per year. The calculations of what VAT is due are much simpler and in some cases can provide a tax saving.

New VAT fuel scale rates for taxing private use on fuel provided will apply for returns beginning on or after 1st May 2010. The scale charge for a particular vehicle is determined by its CO2 emissions figure.

Quick Tax Tips

Instead of paying for fuel, consider paying a flat rate mileage allowance to employees for business journeys, whether they use their own car or are provided with a company car. Providing the rates used are within HMRC guidelines then the employee will not suffer any tax. The business can currently reclaim input VAT based upon the fraction 7/47 of the gross mileage payments made. As the mileage allowances will not be paid for private journeys then no VAT fuel scale charges would apply.

We can help

Despite the Chancellor's speech not containing a lot of changes the press releases and other documents give a more detailed picture. It is widely expected that a second Budget will immediately follow the election in May which could serve to complicate matters further.

We can guide you through the complexities of the legislation and help you to pay much less tax.

So if you would like to discuss ways in which we can help you to make tax savings, or if you would like to discuss any of the issues identified in this edition of 'Pay Less Tax' please do not hesitate to contact us.

Petersons
Harvestway House, 28 High Street, Witney,
Oxfordshire OX28 6RA

Tel: 01993 776476
Peter Hellowell
Email: peter@petersons.co.uk

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2010budgetextra

Worried about higher personal tax bills?

The new 50% tax rate for those earning over £150,000 has brought personal taxes to the forefront of many tax planning discussions. Whether earning more than £150,000 or not, many individuals are becoming concerned about the amount of personal taxes that they are paying on their incomes.

There are a number of income levels above each of which the rate of income tax you would pay will increase.

- Where total annual income is between £43,875 and £150,000 then the rate of 40% will apply, subject to the exception below. However when combined with National Insurance this will increase the tax rate to 41%.
- People with total annual incomes between £100,000 and £112,950 will suffer tax at a staggering 60%, which could be increased by a further 1% to 61% if they are liable to National Insurance. The reason for such a high tax rate is that these individuals will have their personal allowance reduced by £1 for every £2 of income over £100,000, adding an extra 20% to their 40% Tax rate.
- People with annual incomes above £130,000 could be caught by the new pension anti-forestalling provisions.
- Where total income exceeds £150,000 then a tax rate of 50% will apply, which could be increased to 51% if National Insurance becomes due.

Depending upon the level of your income, you may wish to consider keeping your taxable income below one of these levels. There are a number of solutions which you may wish to consider, a few of which are given in overview in this insert.



Individuals

One option is to convert income to capital, as Capital Gains Tax is only 18% which may be lower if reliefs, such as Entrepreneur's Relief, are available. The rule of thumb could be applied to investments; however there are risks that would need to be taken into account, the first of which is that the value of an investment could go down as well as up. The second is that the rate of Capital Gains Tax could increase in the future.

You could consider making investments where the income return is deferred in the hope that when you do receive the income, tax rates will have fallen and reduce your tax bill. If your spouse has less income than yourself, then it may be worth considering transferring some investments into their names. We can refer you to an appropriate Financial Adviser to help you plan for the difficult times ahead.



Alternatively if you were thinking of some inheritance tax planning which includes transferring investments down a generation, whether directly or in a structure, then now may be an appropriate time to consider this further.

Should you be making charitable contributions then by gift aiding these the level of your taxable income will reduce.

Self employed

Whether you are self employed on your own or in partnership with others you may wish to consider ways to reduce your own tax burden.

One option is to consider bringing your spouse into the business. If total income is in the order of £300,000 then bringing your spouse into the business could reduce the overall tax bill by up to £15,000.

Another option is to consider transferring the full business into a limited company, by incorporating. This will allow you to control the level of your own personal income and the marginal rate of tax that you are personally liable for. See below for options on how you could receive money from your company.

A further option is to bring a corporate partner into the business, perhaps because you are not able to transfer your full business into a company. If you are a sole trader then this could not only provide you with the opportunity to save tax, but also enjoy limited liability, through a Limited Liability Partnership with a corporate partner. You will continue to pay personal tax on your share of income at whatever rate is applicable to your income levels, whilst the company will pay tax at company rates.



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Running your own company

If you run your own business through a limited company there are a number of options open to you depending upon circumstances:

- You could keep your personal income between or below thresholds by adjusting your salary and dividends. You have the flexibility to decide the level of your own personal income, irrespective of what profits the company makes. This may result in leaving surplus cash in the business which could be taken at a later date if tax rates reduce again or perhaps you could consider alternative methods of extracting this surplus cash.
- If you are a higher earner then perhaps you could consider capping your salary at £150,000 and taking the excess profits as a dividend. The top rate of tax for dividends paid is only 36% for those individuals with total annual income in excess of £150,000. This is cheaper than the possible 51% tax and National Insurance on your salary.
- You could consider bringing family members in as shareholders. They do not need to work in the business to justify receiving a share of the profits. Dividends to individuals with total annual incomes between £43,875 and £150,000 would only pay an effective tax rate of 25% on dividends received. If their income (including the gross dividend) is below this limit then there is no personal tax to pay. There are practical as well as tax issues to consider, including settlements legislation and the previously proposed income shifting rules.
- You could consider bringing in family members and pay them a salary. However they would need to be actively working in the business and the level of their salary must be reasonable for the duties that they perform.
- You could consider borrowing money from the company. You would suffer a benefit in kind on the funds borrowed in excess of £5,000. If you are earning over £150,000 the effective annual rate of tax would be around 2.4% at the moment. However there are practical and tax implications of this option. For instance the company would be liable to pay over with the annual corporation tax bill 25% of the amount you had borrowed and not paid back.
- You could consider more advanced tax planning methods, such as Employee Benefit Trusts (EBT's), Employer Financed Retirement Benefit Schemes (EFRBS) or Remuneration Trusts. We have teamed up with a number of tax experts in the UK to bring leading edge advanced tax planning strategies to you... strategies that can save many thousands of pounds in tax. Please do not hesitate to contact us if you are interested in discussing these further.