



private client | loss of personal allowance

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Individuals who have earnings over £112,950 will from 6 April 2010 lose their tax free personal allowance. Where earnings are between £100,000 and £112,950 the allowance will be tapered, reducing by £1 for every £2 over £100,000. This means the marginal rate of income tax on taxable income between £100,000 and £112,950 will effectively be 60%.

There are various ways to mitigate this 60% rate of tax by advancing income into the 2009/2010 tax year or increasing reliefs post 6 April 2010.

The most common ways of reducing the impact of this are as follows:

acceleration of income

- dividends might be brought forward to be paid in the current tax year, that is before 6 April 2010. With the benefit of the tax credit the effective rate of higher rate tax paid on a dividend currently represents 25% of the cash dividend received. With the introduction of the additional rate from 6 April this will increase to 36.11%
- bonus payments to be paid in respect of profits earned in the current tax year could be paid before 6 April 2010 in order to ensure that the bonus is taxed at the lower marginal rate in the current tax year
- employee share schemes which afford a capital return to employees on a sale of their employee shareholdings (taxed at CGT rates of currently 18%) are made significantly more attractive with the rise in marginal rates of income tax
- salary sacrifice, if successful, in exchange for a non-taxable benefit would reduce the liability to tax at the 50% rate

equalisation of income between spouses

- income splitting encompasses the situation where shares in a company are held by one spouse and all the value is added by that individual's spouse. An example would be where a wife owns shares in a company through which the husband conducts his business. The House of Lords held in the "Arctic Systems" case that the dividends would be treated as income of the spouse who owns the shares because it fell within an exemption for 'outright' gifts between spouses.

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HMRC have twice deferred introducing legislation to deal with this although it remains clear that they consider income splitting to be "unacceptable and unfair"

- equalisation of income ensures that both spouses utilise their personal allowances and lower rates of tax which is normally achieved by transferring cash or other assets between spouses to bring about equalisation

reduce income

- pensions tax planning at its simplest entails ensuring that, if you have "relevant income" in 2009/10 and 2010/11 of less than £130,000, you pay as much pension as possible as the relief available to you is only restricted by the level of your earned income
- gift aid payments made to charities under the gift aid scheme reduce the tax payable at the higher rates of tax. This will not affect the tax that can be claimed by the charity
- salary sacrifice if successful, in exchange for a non-taxable benefit would reduce the liability to tax at the 50% rate

These courses of action could have other implications (including non tax matters) and therefore it is important for your circumstances to be reviewed prior to any action being taken.

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