

## How to avoid the 50% and 60% tax rates

A new top rate of income tax is due to be imposed from 6 April 2010 at 50%, but some people will pay tax at a marginal rate of 60%.

The headline rate of 50% will apply to the portion of your taxable income that exceeds £150,000. When combined with national insurance (NI) of 1% this adds up to a top rate of 51% for everyone in this tax bracket. This combined tax rate will rise again to 51.5% on 6 April 2011, when all rates of NI increase by 0.5 percentage points.

The 60% marginal rate will apply to people with total taxable income of between £100,000 and around £114,000. These individuals will have their tax free personal allowance reduced by £1 for every £2 of income over £100,000, adding an extra 20% onto their top tax rate of 40%. These people also pay NI at 1%, so their combined marginal tax rate is actually 61%

If you are self-employed and draw up your accounts to 30 April, any profits you have made since 1 May 2009 will be taxed in 2010/11. You may thus already be accruing high tax charges on your current profits.

If you will be in the £100,000 to £114,000 income bracket for 2010/11 you could use the following strategies to reduce your total taxable income below £100,000:

- Pay personal pension contributions into a registered pension scheme.
- Get your employer to pay pension contributions into your pension scheme and reduce your gross salary proportionately.
- Where your spouse has a lower marginal tax rate, transfer income generating assets such as shares, let property or bank deposits into your spouse's sole name.
- Make gift-aided charitable contributions.

Paying increased pension contributions to reduce your marginal tax rate may not work if your income has topped £150,000 for any tax year since 2007/08. This is because new tax rules apply where irregular amounts of pension contributions are paid since 22 April 2009. Please ask us for personal advice if your income is in this tax band.

When you run your business through a company you can keep your taxable income below the key thresholds of £100,000 or £150,000 by reducing your salary and dividends, and leaving any surplus cash in the company. If you currently operate your business as a sole-trader or partnership, incorporating your business at this time will allow you to control your marginal tax rate more effectively in the future. Talk to us to discuss how this could work for you.



Plan now to save tax

### Tax deadlines

- 1 July**  
New advisory fuel rates for company cars.
- 3 July**  
Finalise PAYE settlement agreements for 2008/09.  
Returns of rents paid to overseas landlords and tax deducted in 2008/09 must reach HMRC.
- 6 July**  
File P11D/P9Ds and issue copies to employees. Report shares and share options acquired in 2008/09 on the relevant form. Redundancy package for 2008/09 that include benefits in kind and exceed £30,000 must be reported to HMRC.
- 19 July**  
PAYE/NIC payments due to 5 July and any class 1A NICs for 2008/09.
- 22 July**  
Electronic payments for class 1A NIC and PAYE for period to 5 July must have cleared HMRC bank account.
- 30 July**  
Private company accounts for year to 30 Sept 2008 must reach Companies House.
- 31 July**  
Second instalment of income tax due for 2008/09. Unpaid tax for 2007/08 attracts 5% penalty. Renew child and working tax credit claims for 2009/10. Final day to claim for Income tax reliefs for Furnished Holiday Lettings for 2006/07.
- 2 August**  
Submit form P46(car) for quarter to 5 July, newly provided cars only.
- 19 August**  
Cheque payments for PAYE/NIC to 5 August and CIS returns must reach HMRC
- 21 August**  
Electronic payments of PAYE/NIC must clear HMRC bank account
- 19 September**  
Cheque payments for PAYE/NIC to 5 Sept must reach HMRC
- 31 October**  
Deadline for submitting 2008/09 paper tax returns.

### Unannounced visits from Tax Officers

If you receive an unannounced visit from any HMRC officers please call us immediately. You do not have to let the officers into your building, as they have no power to force an entry. The officers can only enter the premises with the permission of the occupier. Make sure all of your staff are aware of this, as a visit from HMRC officers can be very intimidating. Always ask to see the officers' ID and the written notice that permits an unannounced visit.

### Tax Tip

Keeping your total annual sales under £68,000 (current VAT threshold) can simplify your tax affairs. You can submit a simple personal tax return, you don't have to register for VAT, and you avoid compulsory electronic VAT returns from April 2010.

## Why claim capital losses?

The tax year to 5 April 2009 was disastrous for those with investments in shares or property. If you were forced to make disposals you could have capital losses to report. Shares held in nationalised banks and other companies that effectively went bust are treated by HMRC as being of negligible value. Although you have not actually disposed of those shares you are



deemed to have made a capital loss on those shares.

These capital losses need to be included on the capital gains pages of your personal tax return. A capital loss can be carried forward indefinitely and set against a future capital gain, but only if the loss has been correctly claimed.

In some cases, it may be possible to make an election to defer a gain from a past tax year, or you may have already deferred some gains in the past. When those deferred gains become taxable in the current tax year or a future tax year, they can be set against your recent capital losses.

If you have the special non-domicile status there is an election you can make to allow your off-shore losses to be used in the UK. Please talk us if you have made losses overseas.

## Future Shocks For Company Car Users



**Think electric**

If you drive a company car you need to keep an eye on the tax you pay for using the vehicle, as this is likely to increase year on year.

The tax charge is related to the car's CO2 emissions and its price. An average car has CO2 emissions of around 160g/km, which means the driver is taxed on 20% of the vehicle's list price every year. This percentage will increase to

21% from 6 April 2010, and will be 22% from 6 April 2011.

Currently the list price used for the tax calculation is capped at £80,000. The list price is the show-room price for the car, not what your employer actually paid including discounts. From 6 April 2011 this cap is removed, which will hit drivers who get their company to pay for top range cars.

Say you drive an Aston Martin DBS costing around £160,000, which has CO2 emissions off the scale. In 2009/10 you would be taxed on £28,000 (35% x £80,000). At the 40% tax rate this amounts to a tax bill of £11,200. From April 2011 you will be taxed on £56,000

(35% x £160,000). At the top tax rate of 50% that will apply in 2011/12, this will result in a tax bill of £28,000.

If you are drive an alternative fuel car, such as a hybrid, bio-fuel, or E85 fuel, you currently get a reduction in the tax charge compared to normal cars. This discount will be removed from 6 April 2011 for all alternative fuel cars, except for pure electric cars, which will still be taxed on 9% of their list price.

So the message is: get that high priced car out of the company ASAP, and if you must drive a company car – think electric, or at least very low CO2 emissions.

## Don't Rely On The Intestacy Rules

If you die without a valid Will being in place your assets are distributed according to the intestacy rules. These rules define how much each relative receives from your estate, which may not be enough to support your immediate family. The amounts vary as there are different rules depending on whether you have children, were married, or died in Scotland as opposed to in England or Wales.

For a death in England the surviving spouse will receive a legacy of £250,000 plus the deceased's personal possessions and a life interest in half of the remainder of the estate. The other half of your

total estate goes to your children, whether you want them to inherit or not. Your widow or widower may not have an automatic right to continue to live in the family home.

If you don't have a Will, or other life insurance arrangements, your partner will receive nothing on your death, even if you have been living together for years and have children together. Only those who are legally married, or same sex couples who have registered a civil partnership, have any rights to their partner's assets on death.

If you have a properly written Will you can make gifts to whoever you

want to free of inheritance tax (IHT) where the total value of those bequests is less than the IHT threshold of £325,000. This threshold may be doubled if you were previously widowed.



**She may not inherit the earth**

It makes sense to make a Will if you are in a permanent relationship, or run a business. Let your closest relatives and friends know where you have deposited the Will and who you have named as your executors.