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TAXING TIMES

"There are two systems of taxation in the country: one for the informed and one for the uninformed"
Honourable Learned Hand, US Appeals Court Justice.

Tee Financial plc can help you become the informed!

The Budget 2009

On the 22nd April this year Alistair Darling, The Chancellor of the Exchequer, announced various measures to help raise funds to bridge the income gap in Government spending.

This follows unprecedented investment by the Government into the banking system and various other measures to help stimulate the economy out of the recession.

Two of these measures were to increase the rate of income tax paid and to reduce the level of tax relief received under pension contributions.

As I write this article, the legislation on tax relief on pension contributions is still being debated in Parliament. We should have a clearer picture on this area later on in the year.

The Tax Changes

To help reduce the gap in Government income, income tax for higher earners has been increased from 40% to 50% on income above £150,000. Dividends above this level will be taxed at 42.5% as opposed to 32.5%.

The definition of income includes everything i.e. earnings, dividends, trust income and deposit interest, etc.

The new tax band will be introduced on the 6th April 2010.

The Chancellor also announced that individuals with earnings above £100,000 would gradually lose their Personal Allowance. If you are UK Resident, in the current tax year you will have a Personal Allowance, which is the amount of income you can earn which is free of income tax. The Personal Allowance for someone below age 65 is currently £6,475.

The Personal Allowance will be reduced by £1 for every £2 that your income exceeds £100,000 until it is reduced to zero. So, if you have earnings of £112,950 (this figure is calculated by multiplying the Personal Allowance by two and then adding it to £100,000) you lose your entire Personal Allowance. Earnings between £100,000 and £112,950 will therefore suffer income tax at 60% on earnings within this range.

This new rule will also apply from the 6th April 2010.

From the 6th April 2011, the Government intends to reduce the amount of tax relief available on pension contributions for those with earnings of £180,000 and above. If you have earnings above £180,000, you will only benefit from 20% tax relief. Tax relief will be tapered for earnings between £150,000 and £180,000.

The Government has introduced `anti-forestalling rules', as they are concerned that individuals will start making large contributions in to their pension plan before the new rules become effective on 6th April 2011.

The anti-forestalling rules will apply to individuals who on or after the 22nd April 2009:

- Have earnings of £150,000 and above.
- Amend their regular (monthly or quarterly) pension contributions and
- Whose total contribution exceeds £20,000

Where the rules are breached, the individual will suffer a Special Annual Allowance Tax Charge of 20% on the amount above the annual £20,000 contribution limit. Salary Sacrifice arrangements set up on or after the 22nd April 2009 will be included in total earnings.

Pensions are still an effective solution to help build up income in retirement and we would recommend, where appropriate, individuals should consider maximising funding up to the £20,000 limit. Contributions above £20,000 will only attract 20% tax relief.

Ways to Reduce Your Tax

Investments

There are some simple steps, which may help to reduce the impact of the new 50% income tax band and also losing your personal allowance.

This is not a complete list, just some simple measures, which you can consider.

To reduce your income below £150,000, you could consider restructuring investments, for example utilising your Individual Savings Allowance (ISA), investing within Investment Bonds (both Onshore & Offshore) and equalising investments with your partner where their earnings are taxed at a lower rate of income tax.

If you run a business you can consider redirecting income to other family members/partner and control the income withdrawals from the business.

If you have invested in collective investments, which are generally classed as Unit Trusts or Open Ended Investment Companies (OEIC) you can move from holding income (yielding) funds to growth orientated funds which generate either a lower yield or no yield at all.

On either partial or full encashment of these investments, the first £10,100 gain (profit) in the current tax year will be free of Capital Gains Tax and the balance will be taxed at 18%, which is more attractive than paying 20% or 40% income tax and 50% from next year on earnings above £150,000.

Pensions

If you have earnings above £100,000 and below £150,000, you could consider using pension funding to reduce your overall taxable income by use of a Salary Sacrifice arrangement.

Under this arrangement you forego a part of your salary/bonus as an employer pension contribution and therefore bring down your overall income for tax purposes.

Salary/Bonus sacrifice can help protect all or part of your personal allowance by keeping your earnings below £112,950 and is a tax efficient solution to help fund a pension plan.

Where Salary/Bonus sacrifice agreements are made on or after the 22nd April 2009, the sacrifice will be included in the earnings figure for those with incomes of £150,000 or above and will be subjected to 50% income tax from 2010.

Salary Sacrifice can also be an attractive option for individuals who have earnings below £100,000 due to the National Insurance Savings.

<u>The Next Step</u>

With good personal financial planning advice we can work with the existing and new rules to maximise income tax planning and pension funding.

At Tee Financial plc we offer you the opportunity to sit down with a qualified and experienced Independent Financial Adviser, who will talk through your current aims and objectives and then provide suitable advice to meet your future aspirations.

If you would like to have a no obligation meeting, please contact Kersi Deboo BA (Hons), Senior Financial Adviser at Tee Financial plc, on 01279 713390 or via email at kersid@stanleytee.co.uk.

"But in this world nothing is certain but death and taxes."
Benjamin Franklin.

"Over and over again Courts have said there is nothing sinister in so arranging one's affairs as to keep taxes as low as possible. Everybody does so, rich and poor, and all do right, for nobody owes any public duty to pay more than the law demands. Taxes are enforced exactions, not voluntary contributions, to demand more in the name of morals is mere cant."
Honourable Learned Hand, US Appeals Court Justice.