

PLANNING FOR HIGHER TAX RATES

Individuals with annual incomes over £150,000 will be subject to the new top rate of income tax of 50% from 6 April 2010.

In addition for those earning over £100,000 the basic personal allowance is being withdrawn, with the effect that those earning between £100,000 and £112,950 can be taxed at up to 60%. The top rate on dividend income has also been increased to 42.5% from 32.5%.

Now is the time to start planning for those high earners whose top slice of income will be affected. What can be done to delay or avoid the effect of these changes? Here are some ideas that are worth consideration dependent upon individual circumstances:

- Businesses could bring forward the date of a bonus payment to directors or employees from 2010/11 to 2009/10.
- Companies could bring forward dividend payments to its shareholders from 2010/11 to 2009/10.
- A change of year end for sole traders or partnerships could be beneficial, particularly if its year end does not currently coincide with the 5 April.
- If any taxable share options are held, these could be exercised before 6 April 2010.
- For sole traders and partnerships, incorporation could be beneficial.
- For owner managed companies, profits could be retained, rather than paid out in salaries or dividends. It is possible that the 50% rate may be reversed after a period of time.
- Payments into pensions as an alternative to taking salary or dividends from companies should be considered.
- Where married couples are in business together, it may be possible to share partnership profits or dividends more tax effectively.

Under all circumstances, careful planning will be required. If you are an individual or business owner that may be affected, contact us for advice as early as possible.