

Finance Bill 2009 Top Tax Planning Tips

The 2009 Budget included measures which will hit high earners drastically including:

- 50% top rate tax (in fact 51% with National Insurance) on earnings above £150,000 from 5 April 2010.
- Dividend tax rate increases from 32.5% to 42.5% for income above £150,000 from 5 April 2010.
- Withdrawal of tax-free personal allowance for earnings over £100,000 from 5 April 2010. The marginal rate of tax could be up to 60%.
- Tax relief for pension contributions reduced from 40% to 20% for individuals with income over £150,000 from April 2011.

Income Tax and Capital Gains Tax

Below are the top tax planning tips to mitigate the increases in tax:

- Accelerate payment of bonuses and business profits to beat higher income tax (50%) and National Insurance from 6 April 2010.
- Bring forward dividend payments from owner-managed companies to avoid increase in dividend tax from 6 April 2010. Dividend tax rate increases from 32.5% to 42.5% for income above £150,000.
- Split income with spouse to use spouse's allowance and basic rate of tax bands.
- Top up your ISA from October 2009 if aged over 50. The ISA limit has increased from £7,200 to £10,200 of which £5,100 can be invested in cash.
- Incorporate your business to benefit from lower corporation tax rates (22% and 28%) compared to income tax of 40% and 50%.
- Make charitable donations as income tax relief on donations will increase from 5 April 2010. 50% relief for those earning over £150,000.
- Maintain regular pension payments if earnings over £150,000.
- Invest in assets producing capital growth rather than income to benefit from the lower capital gains tax rate of 18% e.g. zero dividend preference shares, exchange traded funds (ETFs) and contracts for differences (CFDs).
- Pay yourself in shares instead of taking cash bonuses to take advantage of lower capital gains tax rates in the future.
- Spread bet on shares as no dividend income arises and profits are tax free. Warning! Spread betting is highly risky.
- Invest in buy-to-let property as any increase in value will be taxed as capital gains tax rate of 18%.
- Work less or retire early!

We shall be pleased to assist you in implementing the above tax planning ideas. In addition we have other ideas which can be tailored to your individual circumstances. Please contact us to arrange a planning meeting.

Appropriate tax advice should be taken before implementing any of the above tax planning tips. We cannot be held responsible if actions are taken based on this newsletter.