



# HW Fisher & Company

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## Planning Ideas following Pre-Budget Report

The Pre Budget Report contained a mass of figures, revised tax and NI rates stretching over a three year period. Now that the dust has settled the full implications of the proposed changes are beginning to emerge.

We hope this mini briefing will help you see the wood from the trees. Many of the proposed changes are some way off and may not come into force. We will have to wait and see but prepare for some fundamental changes.

## Corporate and Business Proposals

### Corporation Tax Rates

The 1% increase in the small companies rate of corporation tax has been deferred until 1 April 2010. Consideration should be given to accelerating income to the accounting period ending before the increase but deferring expenditure until after 1 April 2010. Remember, accelerating the profit would mean tax is paid earlier.

### Carry Back of Losses

For companies with accounting periods ending in the year 24 November 2008 to 23 November 2009, and unincorporated businesses reporting a tax loss for 2008/09, the carry back period for losses incurred has been extended from one to three years.

Consideration should be given to reviewing current or proposed capital allowances claims to ensure maximum losses in the relevant period for which extended loss relief is available.

### Dividends Received from Overseas Companies

Draft legislation will be published in December for inclusion in the 2009 Finance Bill to exempt from UK tax dividends received by medium and large companies from overseas companies, probably from April 2009 onwards. Consider deferring receipt of such dividends until the date from which the exemption will apply is confirmed.

### Release of Debt between Connected Parties

Currently when a trade debt between connected parties is formally released (usually by Deed), the debtor company is taxed on the amount released. From 1 April 2009, such release will no longer be taxable. Consider deferring the release of such debts until after this date.

### Company Cars

The rules for claiming capital allowances on cars are being amended on 1 April 2009. Consider purchasing cars prior to 1 April to avoid the new rules. Read 'Taxation of Business Travel' for details and examples of this and other measures being introduced.

### Land Remediation Relief

Land remediation relief gives bodies liable to corporation tax a deduction of 150% for qualifying expenditure. From 1 April 2009 the list of qualifying expenditure is being expanded to include expenditure on

- Remediating land that has been derelict since April 1998 and
- Treating land contaminated by Japanese Knotweed, Radon or Arsenic

Relevant expenditure that could qualify for this relief and its timing should be reviewed to ensure maximum relief is or can be claimed.

## Personal Tax Issues

### Introduction of new Higher Rate

The main changes to the taxation of individuals announced in the Pre Budget Report were the introduction of a 45% rate of income tax and a corresponding increase in the rate of tax applied to dividends. The effective rate of tax on dividends will increase from 25% to over 30% for those earning over £150,000 after 6 April 2011. Both are to apply from 6 April 2011. A number of potential tax saving ideas are set out below.





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## Dividends v Salary

Currently, for director shareholders, there is very little difference between extracting profits by way of dividend or salary. However, with the proposed changes to the marginal rates of tax for 2011 onwards, the difference between the net receipts from each option changes significantly.

For example, if one was considering paying a bonus of £200,000 in 2011/12 onwards, the net amount receivable after tax and NI would be £118,600. If an amount were paid out by the company by way of dividend to leave the company in the same net position as having paid remuneration, then the net, after tax, amount receivable by the individual would be £140,300 if the company paid tax at 22% and £130,200 if it paid 28% tax. Thus up to an extra 18% net receipt could be obtained if structured properly.

## Personal Allowances

From 2010/11 where an individual has taxable income above £100,000 the personal allowance will be reduced by £1 for every £2 above this level up to a maximum of half the personal allowance. A further similar restriction applies for taxable income over £140,000 but this time up to a maximum of the full personal allowance.

Due to the staged loss of the personal allowance noted above, a part of an individual's income between £100,000 and £150,000 will be subject to tax at a marginal rate of 60% (plus national insurance of 1% - 1.5% for 2011/12 onwards).

## Something for the Future

Although 2011 is some way off, the following are some ideas that you should be considering now.

### Use of Company to Spread Income

Post 5 April 2011 income in excess of £150,000 derived by an individual will be taxed at a rate of 45%.

If part of that income is derived from a business carried on by that individual, consideration should be given to incorporating the whole or part of the business and, subject to income requirements, withdrawing only sufficient income by way of salary or dividends to remain in the 40% bracket.

Furthermore the use of a company could assist in financing the working capital of the business i.e. profits retained by the company will be taxed in the company at rates significantly less than those applicable to the individual. This may see partnership service companies re-emerge as an effective tax deferral tool.

HMRC may counter this by possibly reintroducing "Apportionment" rules from close companies effectively forcing the distribution of profits which are not required for business purposes.

### Dividends and/or Liquidation of Existing Company in 2010/11

Conversely, if the current business is carried on by a company, consideration could be given to extracting dividend income at a maximum 25% (post 6 April 2011 at 30%) and liquidating the company prior to 6 April 2011. Opportunities may also exist to extract funds at 18% or as low as 10% with Entrepreneur Relief.

### Pension Contributions

Currently an individual gets relief for contributions to a pension fund at their highest rate of tax. Contributions after 5 April 2011 will therefore get relief at 45%. Despite strong rumours (again) that relief could be restricted to basic rate, no mention was made about this by the Chancellor. However, as a "cap" on this generous relief, annual contributions limits and the "lifetime allowance" will be frozen at 2011 levels for 5 years. The Annual Allowance will remain at £255,000 and the lifetime allowance at £1.8m

Consideration might be given to deferring pension contributions until after 5 April 2011, where possible, to ensure relief at the highest rate.

### Salary Sacrifice

A properly constituted salary sacrifice scheme could reduce an individual's income for both income tax and NIC purposes without reducing the overall benefits received by the employee.

It could also have the added advantage of reducing the employer's NIC liability.





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This facility is likely to become more popular with marginal rates of income tax for 2011 being 45% and, in certain circumstances, 60%.

## Accelerate Income

Income received in 2010/11 will be taxed at a maximum rate of 40% with income received in the following year at 45%. Where feasible, income could be brought into the earlier year to avoid the additional 5% tax and increased NICs. The tax on this income will of course be payable a year earlier.

One method of accelerating income is if you have unapproved options that could be exercised prior to 6 April 2011. If exercised before that date one would only pay tax at the current rates rather than the increased rates. This could benefit both the employee and the employer if the shares were "readily convertible assets" as it would also save on the increased NI payments.

## Loans v Income

If in a year income in excess of £150,000 is required, consideration should be given to taking the excess by way of short term loans and repaying in a year when the level of income required is not as great. Extra care is required where Close Companies are involved.

## Income Splitting

Given that HMRC are delaying the introduction of any specific provisions dealing with income splitting between couples, this technique is likely to be even more popular from 6 April 2011 given the cap on income charged at 40%. HMRC may still use settlement and avoidance rules to counter blatant abuse of the rules.

## Investment Bonds

These investment products allow income to be accumulated and paid out in a structured way. Together with the 5% tax free withdrawal facility they may be useful in avoiding the 45% and even the effective 60% tax rates which may apply from April 2011.

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No action should be taken without seeking professional advice. For further information, and in particular to discuss your personal circumstances, please get in touch with your usual HW Fisher contact in the first instance. We look forward to discussing your position with you soon. This note will be updated on our website – [www.hwfisher.co.uk](http://www.hwfisher.co.uk) – if further amendments are announced.

