



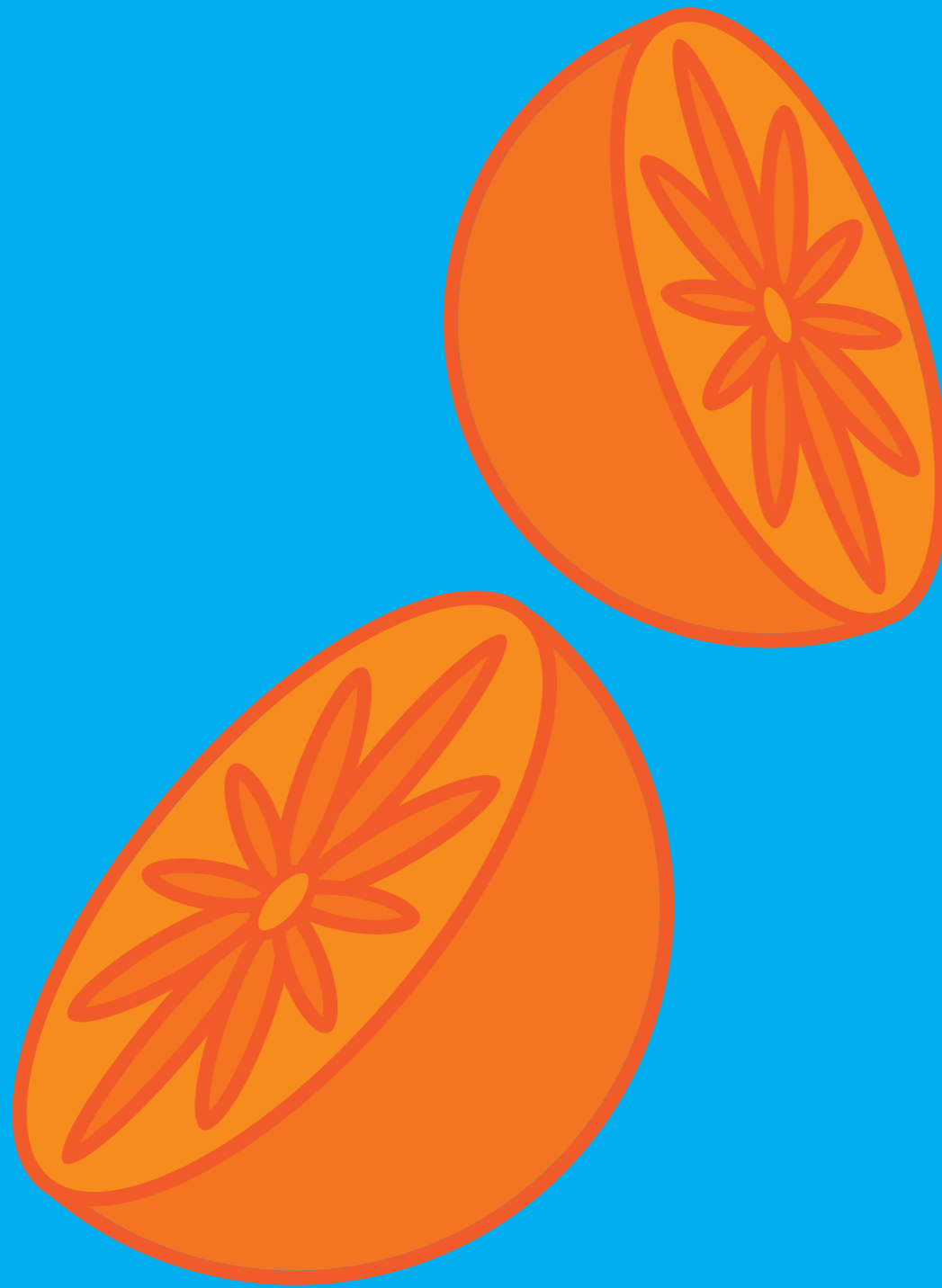
Aren't you being squeezed enough?

November 2009 • Jonathan Elsigood • Philip Rogers

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Aren't you being squeezed enough?



Introduction

Some context

What are the changes?

What can be done?

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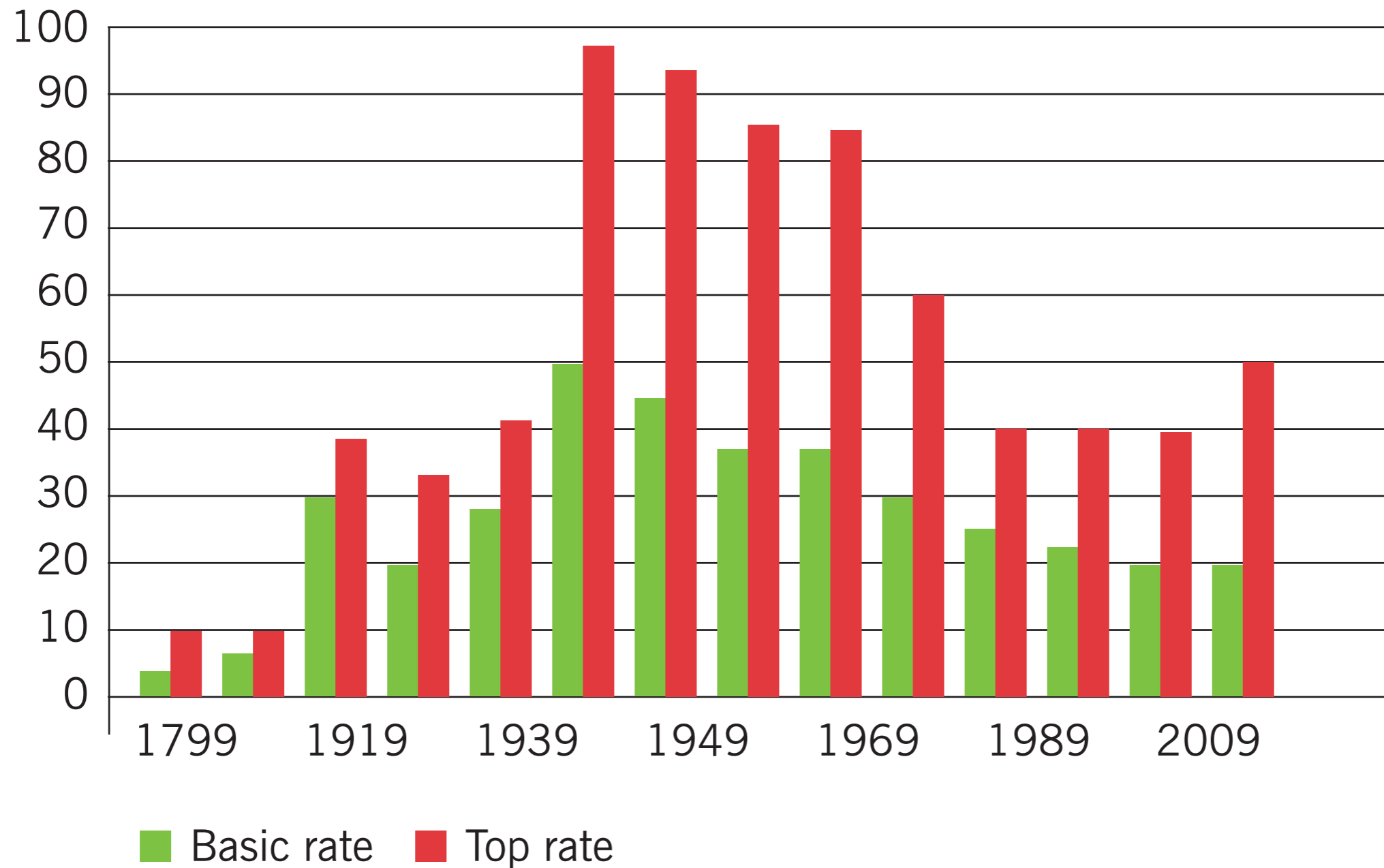
Budget 2009 and the tax changes

- **A new 50% rate of income tax for income in excess of £150,000**
- **The loss of the personal allowance for incomes in excess of £100,000**
- **The loss of higher rate tax relief on pension contributions where income exceeds £150,000**

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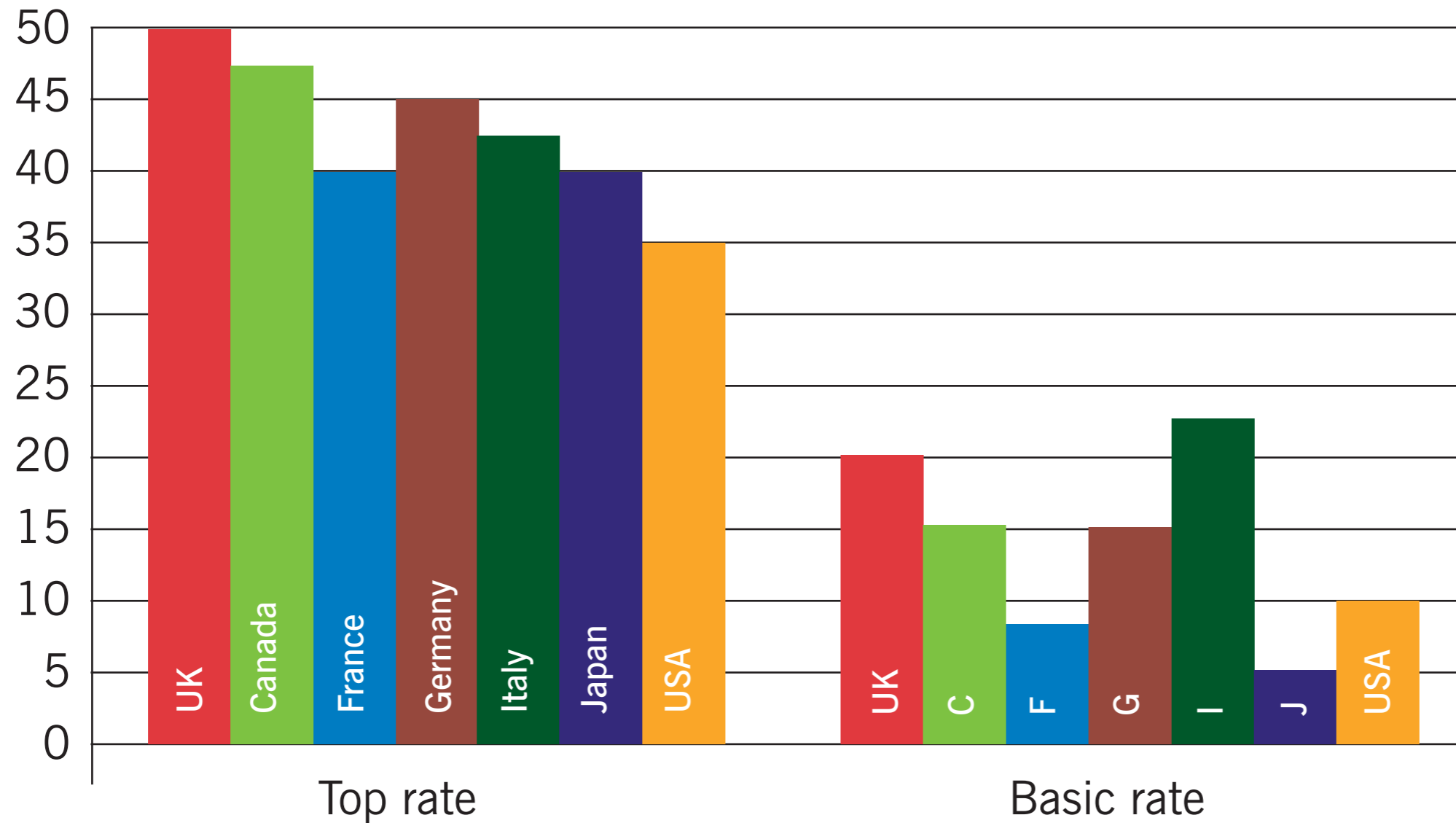
Some context: historical tax rates for the UK



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Some context: historical tax rates across the G7



NB: Tax rates excludes NIC/municipal/state taxes etc.

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The 50% rate of income tax - individuals

In respect of income over £150,000 the excess will suffer income tax as follows:

- Earned and investment income will be subject to 50%
- Dividend income will be subject to 42.5%
 - Effective rate 25% → 36.1%



The 50% rate of income tax - discretionary trusts

- **ALL** income subject to tax at 50%
- Dividend income subject to tax at 42.5%



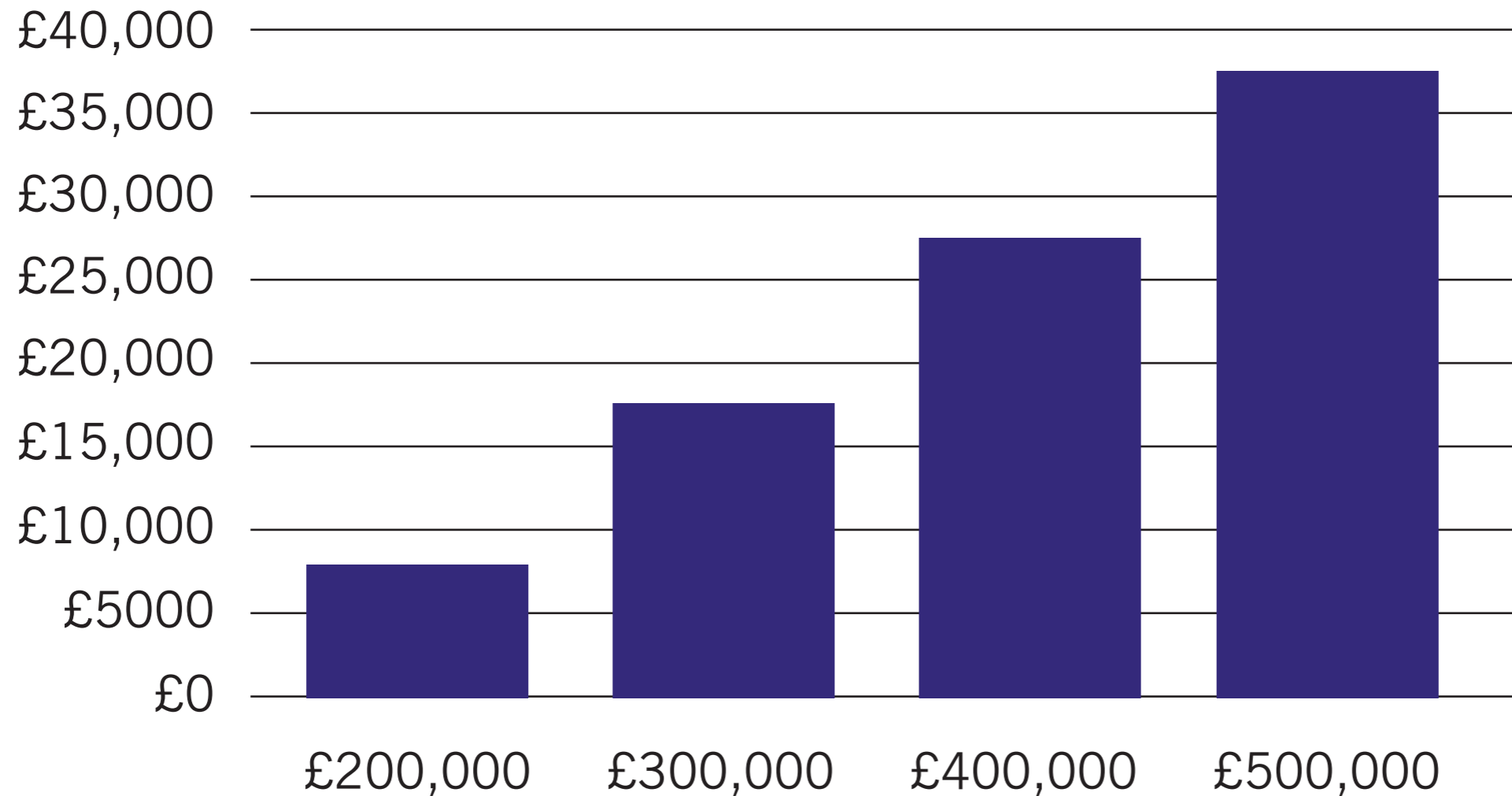
Loss of personal allowances

- **Affects individual's with total taxable income exceeding £100,000**
- **For every £2 of income above £100,000, £1 of personal allowance will be lost i.e. income in excess of £112,950 will have no personal allowance**
- **An effective tax rate on income within the £12,950 band of circa 60%**
- **Total taxable income is generally after deductions for pension contributions, gift aid etc**



Impact of loss of PA and 50% income tax

Additional tax to pay in 2010/11



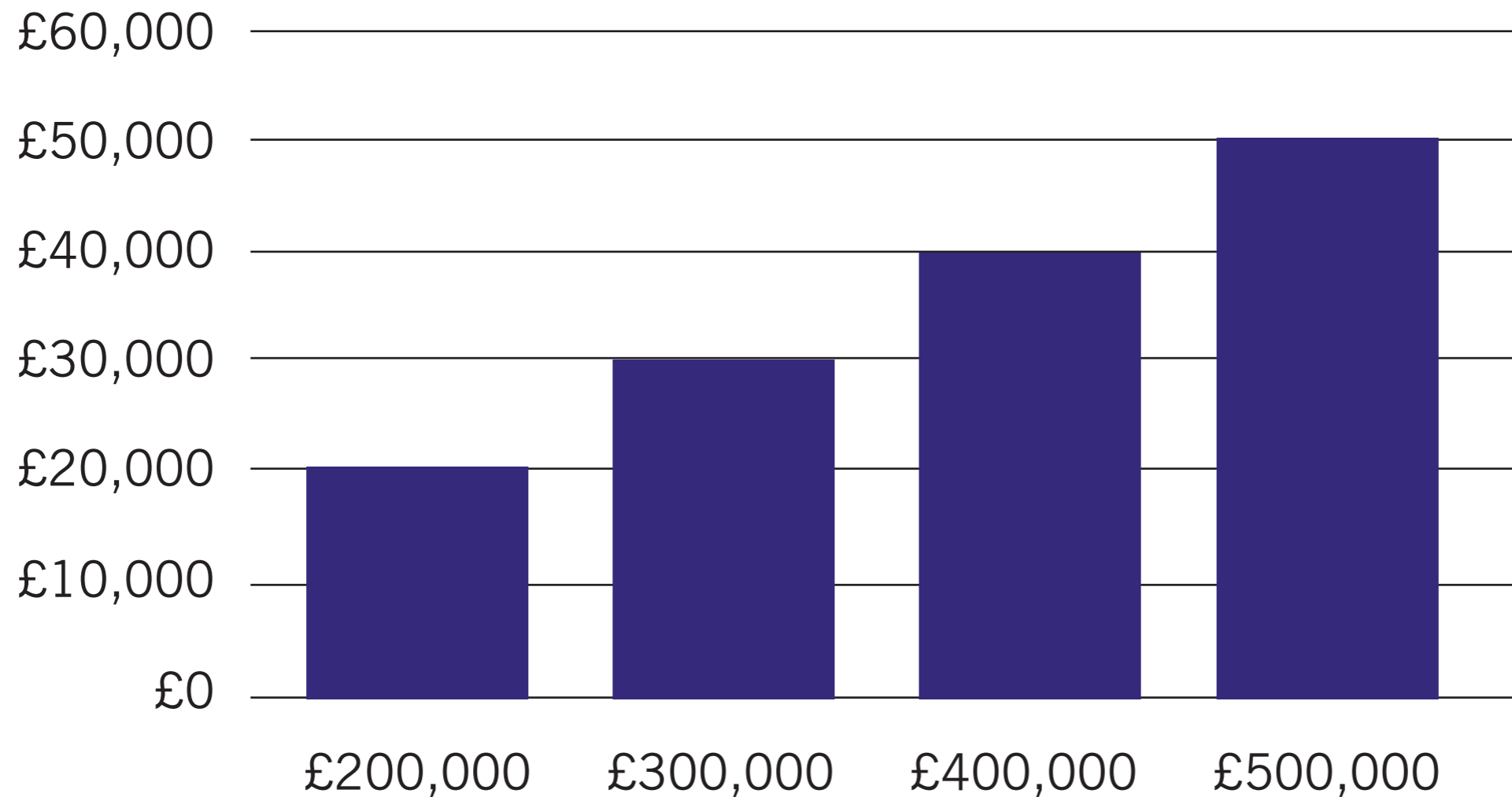
At £500,000 the added tax payable = 13.8% of the net income

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Impact of 50% tax rate on trusts

Additional tax to pay in 2010/11



At £500,000 the added tax payable = 19.9% of the net income

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Pensions – restriction of higher rate relief

- **From 6 April 2011**
 - Tax relief will be restricted to the basic rate in so far as the contributions are offset against income exceeding £180,000
 - For income between £150,000 and £180,000 relief will be tapered
- **But for 2009/10 & 2010/11.....**

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Pension contributions – anti forestalling rules

- Higher rate relief restricted on the greater of:
 - Regular (monthly or quarterly) contributions - £20,000 or amount of regular contributions in place at 22nd April if greater
 - Irregular contributions: averaging over three tax years, but maximum relief of £30,000
- Pension contributions above these limits: special tax charge of 20% of the excess contribution



Pension contributions – anti forestalling rules

Example 1

- monthly (regular) contributions of £3,250 (i.e. annual contributions of £39,000) in place at 22nd April 2009 = higher rate tax relief on full amount

Example 2

- yearly contributions as follows:
 - 2006/07 £40,000
 - 2007/08 £38,000
 - 2008/09 £39,000

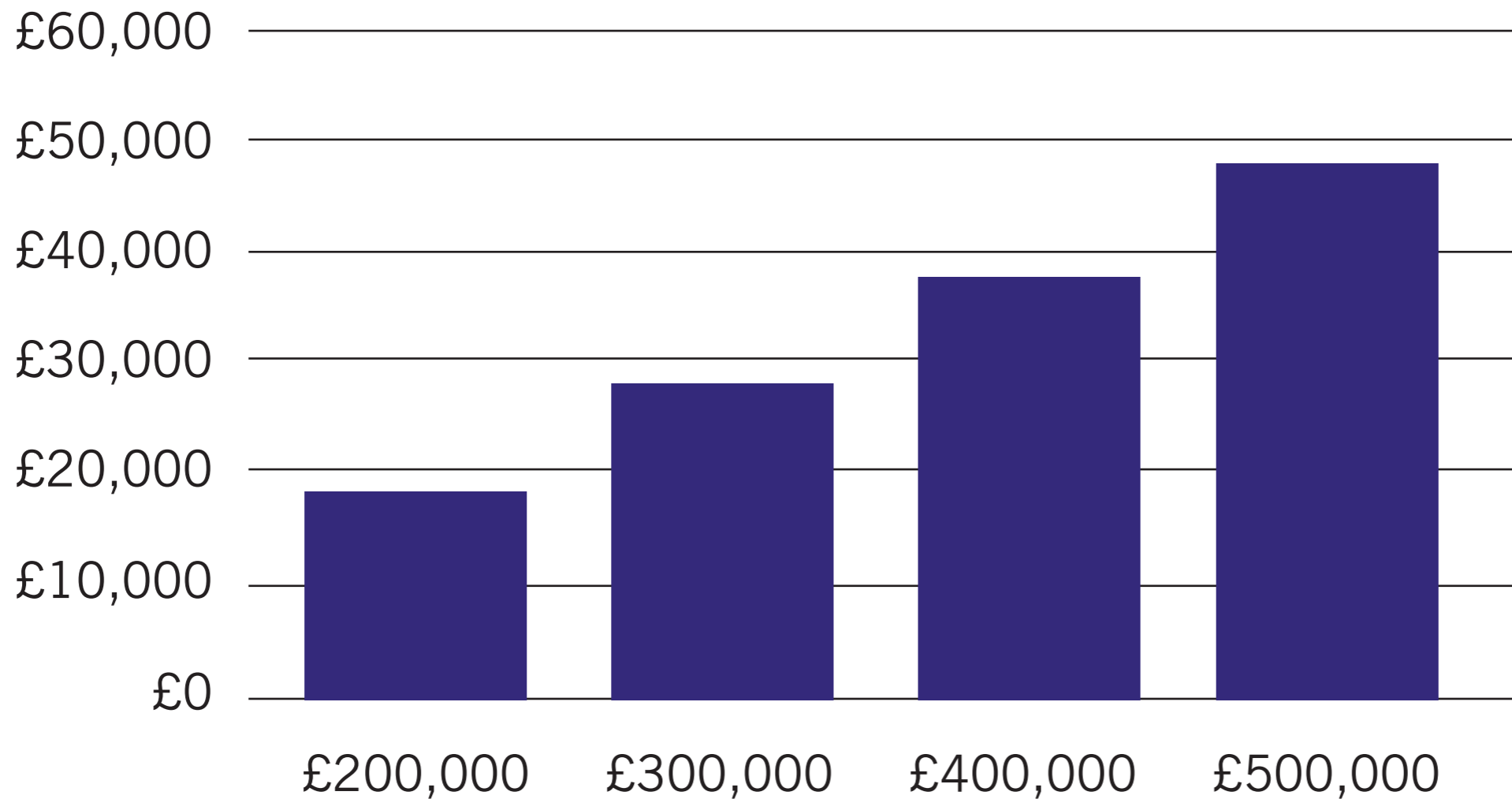
Annual contribution of £39,000 for 2009/10 = a special tax charge of £9,000 as the maximum allowance is £30,000

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Impact of 50% tax, loss of PA and restriction of higher rate relief on pension contribution

Additional tax to pay in 2010/11



At £500,000 the added tax payable = 18.5% of the net income



What can you do as.....

- **An individual**
- **A trustee**
- **A shareholder**

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Planning for individuals

Short term (prior to 6 April 2010):

- Maximise use of allowances in current year
- Advancing income e.g. close bank accounts, cash in investment bonds etc
- Exercise unapproved share option schemes
- Maximise income drawdown from pensions
- Defer claiming allowances and reliefs until 2010/11



Planning for individuals

Long term:

- Defer income, waive dividends
- Use of a corporate vehicle
- Make use of tax favoured investments e.g. ISAs, National Savings, VCTs, EIS etc
- Consider use of tax deferral investments e.g. offshore insurance bonds, offshore roll up funds etc
- Maximising pension contributions

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Planning for individuals

Long term:

- Revisit retirement strategy
- Restructure investments e.g. growth assets ensure taxed to capital gains tax at 18%
- Hold investments across the family
- Use of trusts or alternative structures e.g. family general partnership, family investment company



Planning for trustees

Short term:

- Advancing income distributions to beneficiaries
- Capital advances/winding up

Long term:

- Maximising income distributions to beneficiaries who pay tax at a lower rate than 50%
- Convert discretionary trusts to interest in possession trusts
- Restructure investments for capital growth
- Use tax deferral vehicles



Planning for shareholders

Short term:

- **Advancing income**
 - **Paying dividends**
 - **In specie dividends**
 - **Salary/bonuses**
- **Share buy backs – income distribution**
- **Change of accounting date**
- **Incorporation**
- **Pension contributions via salary sacrifice**



Planning for shareholders

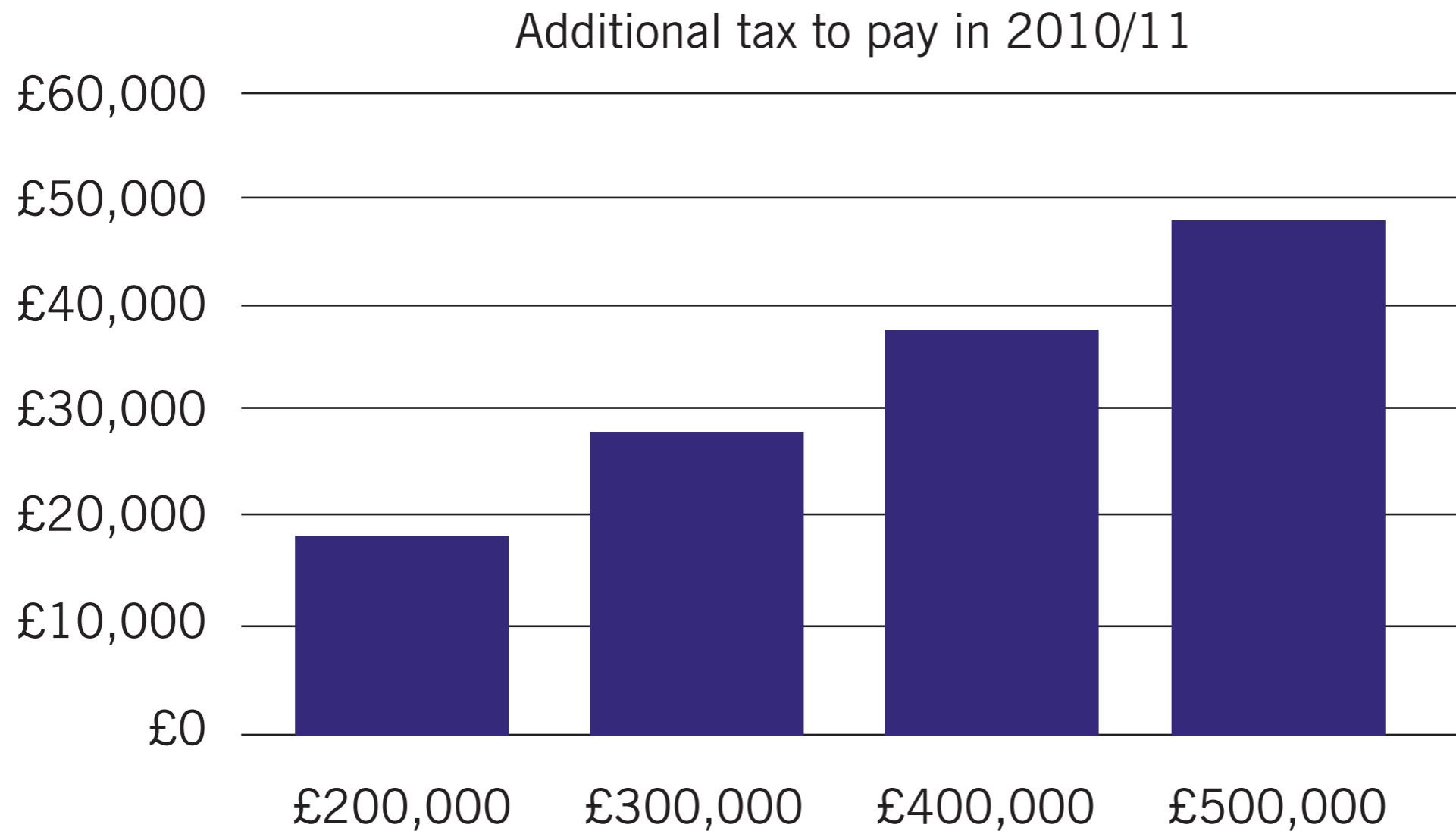
Long term:

- **Employee Benefit Trusts (EBTs)**
- **Employer Financed Retirement Benefit Schemes (EFRBS)**
- **Introduction of corporate partner**
- **Loans**
- **Share options**
- **Different share classes**
- **Retain profits**

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Impact of 50% tax, loss of PA and restriction of higher rate relief on pension contribution



At £500,000 the added tax payable = 18.5% of the net income

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Conclusions

Doing nothing is not an option!

Tax will seriously damage your wealth

One off savings versus long term payback

Act now!



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