



Although we are now into a new calendar year, the tax year does not end for nearly another three months.

The next tax year sees some significant tax changes, perhaps the most important one being that anyone with income in excess of £150,000 will pay income tax at 50% on the excess. The question most often asked is “can anything be done to reduce the amount of tax I am paying?” The simple answer is that there are lots of things that taxpayers can do.

If you are the owner-manager of a business you may want to look at accelerating income, either by way of bonus or dividend, so that it falls to be assessed in the current tax year rather than next. This would obviously also accelerate the date on which the income tax is paid, however at least this tax will be at the current higher rate (40% for bonuses and 25% for dividends) rather than the new 50% rate (36.1% for dividends) which comes into force from 6th April. In many cases the company may not have the cash-flow ability to pay the bonus or dividend, in which case the bonus or dividend can be lent back to the company and withdrawn as and when the company can afford it.

Shareholders could also look at gifting some of their shares to their spouse if the spouse's income is likely to be significantly less than £150,000 so as to ensure that both spouses make full use of their £150,000 taxed at 40%. HMRC will no doubt look at such transfers carefully and there may be other implications of making the transfer and therefore shareholders should seek professional advice before making any such transfer.

For the self-employed, where any income is taxed as it arises, it is obviously not possible to manage the amount assessable to income tax in the same way as it is in a company. However the self-employed can still look at making sure that they utilise all allowances fully and if family members work within the business, ensuring that they are paid a commercial salary for their work.

There is also the possibility of undertaking more esoteric planning which would seek to shelter all of the tax payable on the income.

For example taxpayers could look at making investments into structures whereby the profit realised is taxed as capital rather than income. By doing this the taxpayer has the advantage of their annual capital gains tax allowance which is currently £10,100 and thereafter paying tax at 18% on any profit realised. There is now a structure available which enables clients to simply transfer their current investments into the structure and withdraw the profit as capital rather than income as described.

Company owner-managers could also look at the way in which they extract their income from the company. By structuring their income through an unregulated pension scheme they are able to access the fund tax-free whilst still being able claim relief for the payment in the company. Such planning has been around for about 18 months and is becoming increasingly popular as we move towards the 2010/11 tax year. It is therefore inevitable that HMRC will look to amend the tax legislation shortly (possibly as soon as the Budget due in March) and therefore any company looking to make use of this opportunity would be advised to move quickly. Self-employed individuals, or employees not able to structure their income using the above structure, could look at undertaking planning which reduces their personal income tax on their income. There are a number of ways in which this can be achieved depending on the taxpayer's circumstances.

The above is just a quick run-through of a few tax-saving ideas. They are all completely legal and are based on ideas developed by leading tax barristers.