

Can you avoid the 50p tax?

We have started looking at various ways to mitigate the new 50p tax announced in the Chancellor's April Budget. H M Revenue & Customs estimates that there were 290,000 people in the UK that last year earned in excess of £150,000.

The most potential to mitigate this 50p tax when it comes into force in April 2010 is to convert income into capital. Income tax for high earners will be charged at 50% whereas capital gains tax paid on any profits from the sale of an asset is just 18%.

Higher earners should consider taking some of their pay in the form of shares in the company rather than cash with the intention at a later date of selling the shares in the company and paying tax of just 18% on the gain. Like any tax mitigation scheme this is not without risk as of course the value of shares may fall.

Company owners may also want to consider paying themselves through dividends which will be taxed at 36% for high earners but this is still lower than the 50% income tax rate.

Here are a few suggestions you may want to consider:

If you own a stake in a company, consider paying yourself in dividend. From next year dividends for high rate tax payers will be taxed at 36% rather than 25% as at present.

Having share options in your company will give you the ability to pay tax on any profits at 18% when the shares are sold.

If self-employed consider incorporating yourself as a company and pay tax of between 21% and 28% on profits. Profit can be left in the company and extracted as capital gains on a future sale or winding up at 18%. The combined tax rate on these profits (corporate and personal) would be a maximum of only 41%.

If you are a partner in a firm consider appointing a "corporate partner". The corporate partner would be taxed at rates between 21% and 28% on their share of profits.

Consider diverting income to a non-working spouse.

Invest in buy to let property. Rental income will be reduced by mortgage interest and capital gains are taxed at 18%.

To discuss this or any other taxation matter please contact your usual ABG contact partner on 020 7330 0000.

