

# client briefing

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**B** i r d **S** i m p s o n  
Incorporating McNaughton & McAra

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## Pension relief hits the buffers

**People with relatively high incomes could find that the relief on part of their pension contributions is effectively restricted to just 20% this year. You will not be affected unless your income from all sources including investments is at least £150,000 in the current year or in either of the two previous tax years.**

The restrictions apply to individual and employer pension contributions into any registered pension scheme ranging from personal pensions to final salary-related schemes. The excess higher rate tax relief (but not basic rate relief) will be taken away through a special tax charge on you personally. The rules will be replaced from 2011/12 and were introduced in the Finance Act 2009.

For the tax years 2009/10 and 2010/11, people with incomes of at least £150,000 can still benefit from full tax relief on limited levels of contributions. The rules are complicated. Quarterly or more frequent contributions started before 22 April 2009 are basically not affected and there is an annual allowance of at least £20,000, which can be higher in certain circumstances. Ask us for details if you think you might be affected now or in the future.

From 2011/12, the restrictions on tax relief are due to be generally tighter. For incomes of at least £180,000, the tax relief for all pension contributions will be at basic rate only. For incomes between £150,000 and £180,000, tax relief will be tapered down from the higher rate to the basic rate. Full higher rate relief will still be available for all pension contributions if your income is less than £150,000.

So does it make sense to contribute to a pension if your tax relief will be limited to the basic rate? If you are likely to be a higher rate taxpayer after retirement, the relief on contributions may be at a lower rate than the tax rate you will be paying on your pension.

Despite this, other factors could still weigh in favour of pensions. Ultimately, a decision about the relative benefits of 20% tax-relieved pension contributions will depend upon your personal circumstances and retirement planning objectives. Of course, the rules could well change again.

Even if you are not directly affected by the new rules now, you should bear them in mind. It might be worth taking advantage of the full tax relief on pension contributions while you can.

# Opening the books on offshore income

**HM Revenue & Customs' (HMRC) second tax amnesty, known as the 'new disclosure opportunity' (NDO), will offer an 'amnesty' on undeclared offshore income. Taxpayers will receive reduced penalties for previously undisclosed and unpaid tax connected to offshore bank accounts.**

The previous tax amnesty focused primarily on customers of the five largest high street banks, but everyone with unpaid taxes linked to offshore accounts or assets can take advantage of this chance to settle their liabilities on favourable terms. If you have an offshore account and/or asset, such as an overseas property or business, and an address in the UK, you should review your tax arrangements before HMRC opens an enquiry.

The NDO means that, instead of penalties of up to 100% of the tax owed, most people making a full disclosure, either by 31 January 2010 (paper) or 12 March 2010 (online), will pay a penalty of just 10%. A higher penalty of 20% will be charged on people who received a letter from HMRC in 2007 but failed to make a disclosure. If the tax owed is less than £1,000, HMRC will waive penalties, although interest will be charged in all cases.

If you think you need to make a disclosure, you must get a 'disclosure reference number' (DRN) by registering with HMRC, which you can do between 1 September 2009 (1 October if done online) and 30 November 2009. Requesting a DRN does not oblige you to make a disclosure report if you subsequently establish that you do not have any unpaid tax.

Provided it has the necessary resources, HMRC will eventually check for discrepancies between its own information and the NDO disclosure forms, or the usual tax returns.

It is time to review any offshore accounts and assets you may have and avoid being classed with real tax evaders. If you think you will have problems paying the liability in full, then you should contact us to discuss possible alternative payment arrangements as soon as possible. Whether you have complicated tax arrangements or are not sure if you have undeclared overseas income, please come and see us. Not only might this limited period for making a disclosure make it difficult for you to comply, but this is also likely to be the last amnesty of its kind.

## HMRC fuel rates

**HM Revenue & Customs advisory fuel rates are reviewed twice a year, largely to reflect changes in fuel prices.** The rates indicate the amounts an employer can pay to an employee who is provided with a company car for business mileage, without income tax and national insurance contributions arising. Changes take effect on 1 January and 1 July.

The revised rates from 1 July 2009 are:

Engine size	Petrol	Diesel	LPG
1400cc or less	10p	10p	7p
1401cc to 2000cc	12p	10p	8p
Over 2000cc	18p	13p	12p

Petrol hybrid cars are treated as petrol cars for this purpose.



## Tax planning for company owners

**A new 50% income tax rate will apply from 6 April 2010 on taxable income above £150,000. The top rate of tax on dividends will increase from 32.5% to 42.5%.**

The personal allowance will also be clawed back for people whose income exceeds £100,000. The amount of the allowance will be reduced by £1 for every £2 above the £100,000 limit. So the effective marginal rate on income that falls in the band between £100,000 and £113,600 will be 60% (higher rate of 40% plus an additional 20% from losing the personal allowance). The rate for dividend income will be 48.75%. Some straightforward tax planning may save you tax in the run-up of these changes.

### **Paying dividends now or later?**

If your company has surplus cash, it could make sense to pay an interim dividend before the new top rate is introduced. Cash can always be lent back to the company afterwards.

Companies can only pay dividends out of accumulated profits. Therefore, if your company is currently making losses, it will only be able to pay dividends if it has accumulated reserves which cover the losses. Ask us for details.

### **Pensions**

Tax relief on pension contributions has effectively

been restricted to basic rate for those with high incomes. People with incomes under £150,000 are not currently affected and should consider making the most of the opportunities to benefit from full tax relief while it is still available. If you are near this threshold, it may be worth trying to stay below it in some circumstances, for example by income shifting.

### **Income shifting**

If you are a company owner and you are able to split your dividend income with your spouse, partner or any other adult member of your family, it may be worthwhile considering transferring of some of your shares into their names. You can then distribute your company's profits as dividends to take advantage of their lower tax bands, if available.

### **Family shares and PAYE and NICs**

There should not be Pay As You Earn (PAYE) implications on transferring some of your shares to your family. However, if you have family members who are employees, it is normally not a good idea to create new classes of share for each family member. Following a recent court decision, it is possible that their future dividend income will be viewed as earnings and so could attract NICs.

## 17.5% VAT rate returns

**The rate of VAT will return to 17.5% from 1 January 2010, after being 15% since 1 December 2008. This may therefore be a good time to maximise the benefit of the lower rate before it is too late – here are a couple of suggestions:**

- Any goods invoiced or paid for by 31 December 2009 will still be subject to 15% VAT, even if the goods are delivered to a customer on or after 1 January 2010. However, there are anti-avoidance rules that may apply an additional 2.5% charge, if the value of the goods exceeds £100,000 or the invoice is payable more than six months after it is raised. But these situations are limited.
- If you or your clients supply services on a continuous basis, then VAT is normally due according to the rate in force when you raise an invoice or receive money from a customer. However, if an invoice raised or payment received on or after 1 January 2010 includes work done before that date, then the 15% VAT can still be charged on the value of that work. The 17.5% VAT rate will only be charged for work carried out on or after 1 January 2010.

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## Is your business partly exempt from VAT and do you use the standard method (based on income) when working out how much VAT you can claim on your returns?

If the answer to both questions is Yes, you could benefit from three optional new rules introduced by HMRC. You can base the amount of VAT you claim throughout the year on the percentage you claimed in the previous tax year, declare your annual adjustment calculation one quarter earlier than normal – good news if a rebate is due – and, in certain circumstances, you can claim VAT based on 'use', rather than income.

## New rules on tax returns

### There are penalties if you do not make full and accurate tax returns.

The government has taken steps to formalise the basis on which penalties are applied. In broad terms, the new rules for returns filed on or after 1 April 2009 provide for a moderate penalty of up to 30% for failure to take reasonable care,

higher penalties of up to 70% for deliberate understatement and still higher penalties of up to 100% for deliberate understatement with concealment. Taxpayers found to have made a genuine mistake will not be penalised. The deadlines for the filing of 2008/09 self-assessment tax returns are summarised below:

	Notice to complete sent on or before 31 July 2009	Notice to complete sent after 31 July 2009
<b>File paper return</b> (tax owed of less than £2,000 can be collected via PAYE)	31 October 2009*	31 October 2009 or three months after the issue of the notice if later.
<b>File online</b> (tax owed of less than £2,000 can be collected via PAYE)	30 December 2009	30 December 2009.
<b>File online</b> (no facility for collection of tax owed via PAYE)	31 January 2010*	31 January 2010 or three months after the issue of the notice if later.*

\*Automatic £100 penalty if a return is filed after this date.

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