

Special points of interest:

- From 6 April 2010 high earners face income tax at effective rates of up to 60%!
- **Action point for high earners!** Review our tax planning ideas on page 2.
- End of the road for Furnished Holiday Lettings.
- How the new tax rates will affect trusts and ideas to mitigate the effect.

Coming soon to a tax payer near you....

60% effective tax rate for higher earners!

From 6 April 2010 new tax rates applying to those earning over £150,000 will result in an effective tax rate of 36.1% on dividends and 50% on other sources of income.

Plus the reduction in the personal allowance for those earning above £100,000 p.a. results in an effective tax rate of up to 60%!

Don't despair... with appropriate tax planning, high earners may be able to successfully mitigate the new rates. See next page for further details.



End of an era

The beneficial tax treatment currently given to owners of furnished holiday lettings (FHLs) within the EU, is coming to an end on 5 April 2010. From this date, income from such lettings will be taxed under the normal property income rules. As a result losses from FHLs can no longer be utilised against general income. Where significant expenditure is anticipated in the near future that is likely to

bring about an overall loss, it may be advantageous to bring the expense forward so that loss relief against general income is given.



RATs!



From 6 April 2010 the rate applicable to trusts (RATs) is rising to 50% (36.1% effective rate on dividends) in line with the highest tax rates for individuals.

Going backwards?

Where income earned by trustees prior to 6 April 2010 is not paid to beneficiaries before the end of the 2009/10 tax year, the income will suffer

from the new higher tax rates as a result of a top up to the tax pool being required when the income is actually paid out to the beneficiaries.

Repayment situations may arise where beneficiaries (who are not taxed personally at the additional rate of 50%) receive income from trusts. Care should be taken to ensure that refunds are claimed in such cases.

Advice—review the trusts

distribution policy.

Going forward...

Trustees may now find that the income of the trust is subject to a higher rate of tax than the settlor of the trust — a restructuring of the trust could be used to achieve a reduction in the tax payable.

Care should be taken to ensure that all aspects of the trusts affairs are taken into account.

We are a team of independent Specialist Tax Advisors who work with:

- Accountants
- Solicitors
- Businesses
- Individuals

Further details can be found on our website:

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Tax Planning Ideas

Income Balancing



Where one spouse has significantly higher earnings than the other, providing that ownership is genuinely transferred, a redistribution of income producing assets may help to reduce the tax burden of the higher earning spouse.

Why wait?

If it is envisaged that bonuses and/or dividends are to be paid in the not too distant future, such payments may be more tax efficient if paid prior to 6 April 2010.

In the case of directors, it may not be necessary to actually pay the bonus before the end of the tax year — the exact treatment will vary on a case by case basis.

Incorporation

Sole traders and partnerships may find that incorporating the trade into a company may offer significant income tax advantages — the principle being that the charge to income tax can be managed and NICs avoided.

Corporate Partner

For many partnerships, the incorporation route simply does not fit with future plans or the professional field. The introduction of a corporate partner may help to reduce the tax burden on the individual partners and to manage the tax rate. Each case must be reviewed carefully on its merits.

Time to invest?

Income tax reliefs for investments in trading companies may be available under either the Enterprise Investment Scheme (EIS) or Venture Capital Trust Scheme (VCT).



The tax relief available is a reduction in tax payable of 20% under the EIS scheme or 30% under the VCT scheme (subject to maximum investment limits).

Share Options

Rather than paying a bonus, employers may wish to consider offering share options to valued employees. These schemes offer a tax efficient manner in which to retain and recruit high calibre staff.

Pensions

From 6 April 2011, higher rate tax relief will be restricted for those with earnings (inc. pension contributions) between £150,000 and £180,000, at which point relief will be restricted to the basic rate of 20%.

High earners considering making pension contributions before the end of the next tax year should be wary of making a one off payment above £20,000. Advice should be sought on specific cases.

A jog in the park!

Phil, Paul Eaves' son, has entered the inaugural Great Glen Death March. On 3rd April 2010, Phil will run 100km from Banavie to Inverness in under 24 hours! All sponsorship raised will be donated to the Queenscourt Hospice, a charitable body that provides specialist, palliative care for adults with progressive and incurable illnesses — www.queenscourt.org.uk

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