KNIGHT & COMPANY
chartered accountants

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FACT SHEET
Higher Earners

Further information on changes to Income Tax , Personal Allowances and Relief on Pension Contributions for Higher Earners

The April 2009 Budget set out important changes:

Loss of personal allowance

From April 2010 the basic personal allowance which provides an amount of tax free income will be gradually eliminated where a person's total 'adjusted net income' is more than £100,000 by reducing the allowance by £1 for every £2 that the income limit is exceeded. Therefore, if the adjusted net income is £105,000, this exceeds the £100,000 limit by £5,000 and £2,500 of personal allowance would be lost.

The adjusted net income means income net of deductions such as:

- Personal pension payments.
- Trade losses
- Charitable gifts

This means that the marginal rate of tax on earnings between £100,000 and £113,000 is 60% because of the combined effect of the 40% tax rate and the loss of the personal allowance.

Higher tax rate for earnings over £150,000

From April 2010 there is a new 50% tax rate for earnings over £150,000 per annum.

Restriction on Pension Relief

From April 2011 individuals earning over £150,000 will not be able to claim tax relief at their marginal rate of tax on their pension contributions: (ie 50%). They will get tapering relief until income of over £180,000 when they will only get basic rate (20%) on those contributions. To prevent individuals from making very large contributions before the key date of 6 April 2011 the Government has introduced "Anti-Forestalling" legislation: There is a new special annual allowance of £20000, and if contributions are made above this by high earners (**earning over £150k in this and the previous 2 tax years**) then they will only get relief at basic rate. However to make it even more complicated this special allowance rule will only apply to those who change their "normal pattern of regular contributions".

June 2009

Employer contributions to be taxed as Benefits-in-Kind

From April 2011 any contributions made by an employer to top rate tax payers will be taxed as benefits in kind.

Planning possibilities:

General:

Ensure that pension relief used as far as possible to reduce adjusted net income and to take advantage of higher rates subject to forestalling legislation

The self employed:

- Expenditure timing to carry forward tax deductible costs
- Capital expenditure timing because of the availability of the £50000 annual investment allowance
- Revenue timing to bring forward income

Family partnership:

- Profit sharing arrangements

Owner-managed Company

- Check remuneration and dividend planning to accelerate or defer income

Employees

- Timing of bonuses

We would urge you to contact us at the earliest opportunity if you wish to discuss in detail the effect of the above on you or your company personally.

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