

April 2010 Deadline

A number of tax changes are scheduled to come into effect on 6 April 2010, and there may well be advantage in taking action before that date.

Income Tax

As from the tax year 2010/11, income in excess of £150,000 p.a. will be taxed at 50% instead of the present rate of 40%, and dividends at 42.5% instead of 32.5%.

In addition, the personal tax allowance is to be restricted for high earners. For individuals with total income in excess of £100,000 p.a., the basic personal allowance will be reduced by £1 for every £2 of income over £100,000; and "income" for this purpose includes not only earned income but also the grossed-up value of interest and dividends received.

Based on the 2009/10 rates, those earning £112,950 will lose the whole allowance and suffer an effective marginal tax rate of 60%. The process appears to be similar to that which applies to the reduction in the age allowance for those with incomes over £22,900.

To avoid the problem, investors might consider making pension contributions so as to reduce taxable income or to invest in non-income producing assets and funds which permit capital drawdown. The reduction in the rate of capital gains tax to 18% has in any event made capital growth more attractive than income for investors from a tax point of view (though the tax tail should not wag the investment dog!).

Tax on Trust Income

Discretionary and Accumulation and Maintenance trusts will similarly be subject to income tax at the rate of 50% (or 42.5% where dividends are concerned) on all income exceeding the £1,000 basic rate band.

These rates will apply to all such trusts other than trusts where either the settlor or the settlor's spouse may stand to benefit. In these cases the income would be assessed on the settlor, based on his or her tax position.

When trust income is distributed to beneficiaries a distinction is drawn between savings income (i.e. interest) and dividends from shares.

Beneficiaries receiving savings income can recover the difference between the tax paid by the trustees and their own tax rate; but those receiving dividend income are unable to avail themselves of the tax credit received by the trustees.

The net result is that taxpayers at all levels who receive income from these types of trust are effectively subject to a 20% higher tax charge on dividends than on distributions of interest.

However, this result can be avoided if the trustees invest in non-income-producing assets such as insurance bonds, since the 50% tax charge will only crystallise if the bond is surrendered while in the ownership of the trustees. Also, if the bond is assigned by the trustees to a beneficiary paying tax at less than 50%, the gain on the bond will be taxed at the beneficiary's marginal rate of income tax.

Minimum Pension Age

The minimum age at which pension benefits can be drawn will increase from 50 to 55 on 6 April 2010. Few people will be able to afford to retire even at age 55, but the change is significant because under the income drawdown arrangements (known as Unsecured Pension), holders of personal pensions are able to withdraw 25% of the value of their funds after reaching the minimum pension age, but to delay drawing pension income until a later date – which could be as late as age 75.

This facility has proven valuable to those wishing to release cash – for example to pay off mortgage debts and defer the pension income. However, after April it will only be available to those aged 55 or over.

Pension allowance frozen

The Annual Allowance for pension contributions (i.e. the maximum earnings on which contributions can be based if they are to remain eligible for tax relief) was set at £215,000 in 2006/7, when the "simplified" pensions regime was introduced.



The Allowance has been increased each year since then, to keep pace with inflation, but from 2010/11 it will be frozen at a figure of £255,000.

However, this figure will become irrelevant with effect from 6 April 2011 for pension savers whose taxable income from earnings and investments exceeds £150,000 p.a., because the tax relief they receive will be reduced to the point where, if their income exceeds £180,000 p.a., they will receive only 20% tax relief.

The anomalous consequence of this change is that an individual earning £140,000 p.a. will be paying tax at 40% and gaining 40% tax relief on contributions, whereas an individual earning £180,000 will be paying tax at 50% and gaining only 20% tax relief. The high earners affected will inevitably be considering alternative means of saving for retirement.

ISA Allowance

With effect from 6 April 2010 the annual ISA allowance will increase from £7,200 per qualifying individual to £10,200 (or £5,100 for cash ISAs).

For those aged 50 or over before 5 April 2010, the increase has been effective since 6 October 2009, though in the case of cash ISAs not all providers have been willing to invest in the systems necessary to enable them to accept top-ups from people who invested up to the maximum amount earlier in the year.

October 2009



No responsibility can be accepted for the accuracy of the information in this newsletter and no action should be taken in reliance on it without advice. Please remember that past performance is not necessarily a guide to future returns.

The value of units and the income from them may fall, as well as rise. Investors may not get back the amount originally invested

CLAIRVILLE YORK LIMITED, THE BELLBOURNE, 103 HIGH STREET, ESHER, SURREY, KT10 9QE

TEL: 01372 470477 – Fax: 01372 469777 – E-MAIL: enquiries@cyfsl.co.uk

Authorised and Regulated by the Financial Services Authority. Reference Number 207474