

Private client tax planning tips

An individual approach



With personal tax rates at their highest for many years, it is more important than ever to review your tax and financial affairs on a regular basis.

RSM Tenon have compiled these tips to help individuals and trusts plan their tax strategies.

Income tax

If your income is over £150,000 it will be subject to income tax rates of 50% (and 42.5% for dividends) from 6 April 2010. If your income is less than £150,000 but more than £100,000 you will lose some or all of your personal allowance. This will have the effect of taxing some of your income at 60%.

There are various strategies that can be employed to minimise the effects of the increased tax rates. The increased income tax rates of 50% and 42.5% apply equally to trustees of all trusts where there is no entitlement to income, regardless of income levels.

Trustees could consider winding up the trust, particularly during this tax year before the proposed capital gains tax increases. Alternatively, the trustees can consider giving a beneficiary a form of life interest to reduce the overall trust tax bill.

National insurance

National Insurance Contributions increased by 1% on 6 April 2011. It is important to review remuneration packages as there are planning strategies available to mitigate national insurance contributions for both the employee and employer.

Tax efficient remuneration planning

When considering extracting profits from a company various issues need to be considered in structuring the overall remuneration package, in particular the increase in income tax rate and national insurance contributions. For companies paying marginal rates of corporate tax there is very little difference in terms of overall tax cost in taking a dividend rather than salary or a bonus. For 2011/12 dividends will be more tax efficient where the company is paying the lower rate of corporation tax.

There may also be alternative strategies to consider such as taking reward in the form of shares.

Pension contributions

The rules for tax relief on pension contributions have changed from 6 April 2011, relief is given on a maximum of £50,000 contributions regardless of income.

Capital Gains Tax

Capital gains made by higher rate tax payers are now subject to tax at 28%, (basic rate taxpayers will continue to pay tax at 18%).

Individuals and trustees owning non-business assets, such as investment properties, quoted share portfolios, holiday homes, should consider what gains they can realise during each tax year to make full use of annual exemptions (2011/12 - £10,000).

Entrepreneurs' Relief may be available in respect of gains made on the disposal of qualifying business assets. Relief is given in the form of reduced tax rate (10%) on the first £10m gains (within a lifetime). This is available relief but the criteria that needs to be satisfied in order to qualify are complex and professional advice should always be sought.

Inheritance tax

Each person has an annual inheritance tax free gift allowance of £3,000 for each tax year. If you did not use your gift allowance during the last year, you can double this up for the following tax year and make a gift exempt from inheritance tax of up to £6,000.

If you make regular gifts from surplus income of more than the annual gift allowance these may be exempt from inheritance tax if the gifts are made regularly and do not affect your usual standard of living.

There remain many strategies for mitigating inheritance tax which do not involve giving away assets and advice should be sought as soon as possible if this is an area of concern.

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