



Our park business is run through a company which is owned by the family how can I reduce the impact of 50% tax rate?

From 6th April 2010 a new 50% rate of tax will be introduced for individuals with income over £150,000. The rate will apply to income in excess of £150,000. It will also increase the effective rate of tax on dividends within this band from 25% to 36.1%.

There are a number of options you should consider including the following:

- * Leave more profits in the company; these can be distributed in the future or reinvested for growth and taken as a capital gain, currently 18% (or 10 % if entitled to Entrepreneurs Relief) when the company is sold.
- * Accelerate your income: by bringing forward dividends, salary or bonuses to before April 2010; dividends do not have to relate to current year profits they can be paid out reserves. You don't have to physically take it – leave on loan account until the company has the cash to pay it out.
- * Review the ownership of the company and the roles of family members to ensure that all the allowances and reliefs are being utilised when paying dividends and salaries to family members. Extra care and professional advice is required when restructuring a business, to ensure that you do not trigger any unforeseen tax liabilities.

Whatever your plans you must ensure that they meet the legal requirements and take account of any anti-avoidance rules that may be contained within the forthcoming budget.

There are also changes to personal allowances for income between £100,000 and 150,000 and we can provide advice on options for minimizing the impact of these changes if required.

Our caravan park business is run through a family partnership, what can I do to avoid paying tax at the 50% rate?

Consider incorporating into a company or introducing a company into the partnership so that some of the profits can be given to the company to be taxed at the lower rate of 21%.

Only give the individual partners sufficient income to keep them under the £150,000 limit or under £100,000 if they want to retain personal allowances. The company's share of the profits can be left in to be taken at a later date, either when income rates reduce or when the business ceases or is sold and can be taken as a capital gain (currently 18% or 10% if Entrepreneur's Relief available).

There are other implications to consider when looking at incorporating or bringing a company into partnership therefore professional advice should be taken so that all angles are considered prior to changing the business structure.

- * Consider delaying any capital expenditure that qualifies for 100% Annual Investment Allowance or capital allowances until after 6 April 2010 to get relief at 50% rather than 40%.
- * Look at bringing other family members into the partnership to utilise income tax allowances and basic rate bands, especially if they are already working in the business. Care must be taken as to the ownership of the land when new partners are introduced and again professional advice should be sought.
- * Also, obvious ones – look at making gift aid/pension contributions, subject to new restrictions on pensions to bring down income.

This article provides a brief overview only and you should not take any action or refrain from taking action without first obtaining suitably qualified professional advice on your specific circumstances.