SQUIRE SANDERS

TAX CUT

December 2012

Timing is everything!

George Osborne surprised many by announcing in the March Budget that the 50% top rate of tax would be cut to 45% in April 2013. Unlike some of the other Budget changes (remember the pasty tax?), there was no U-turn and the reduction made it into this year's Finance Act. And, to make the most out of the rate reduction, timing is everything.

The 50% income tax rate applies where an individual's income exceeds £150,000. It applies to income from all sources – employment, self-employment, as well as interest on savings and income from property lettings. The rate will reduce to 45% on 6 April 2013 and this lower rate will apply to income "received" after that date.

The Pushmi

Pushing out "receipt" of income beyond 6 April is the key to benefitting from the 5% rate reduction:

- Bonuses – many year-end bonuses depend on performance measured to the end of the calendar year. While that part often can't easily be moved, pushing out payment dates (in conjunction with continued employment) will deliver the 5% reduction. When you implement these changes could be everything – we'd say you ought to do it before Santa arrives.
- Dividends – defer payment or, with final dividends, defer the date when the company resolves to pay the dividend.
- Salary – consider whether some salary (e.g. for March) can be deferred into the next tax year – but don't forget the different rules for directors.
- Share plans – where possible, push out the exercise/ vesting of share awards. Again, it may be best to implement any changes before the Hogmanay hangover.

Pullyu

The flipside of pushing out income is to pull tax deductible expenses into the current tax year (we're back to timing again) when they can be offset against income that will be taxed at 50%. For example:

- Pension contributions – can you pull more contributions into this tax year, subject to the annual allowance of £50,000 (plus carried forward unused allowance from previous years)? One point to watch for in the Autumn Statement is whether speculation about the Chancellor cutting the allowance proves to be correct – this is a topic we will be coming back to.
- Charitable donations – you can expect a flood of leaflets and emails from every charity you've ever given money to exhorting you to donate before 5 April to make the most of the 50% saving. If you can't decide which charities you would like to support, consider pre-funding a CAF account to get the tax deduction this year.

As Doctor Dolittle will tell you, getting the pushmi-pullyu to operate correctly can be a tricky business, not least when timing could be everything. In the current climate, HMRC will be keen to block aggressive planning so more care is needed. Oh, and if you are a listed company don't forget to think about the ABI's dislike for changing remuneration to save tax, particularly if that costs the company more money.

If you would like any further information on the issues in this note, please contact Patrick Ford or Timothy Jarvis.

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