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For further information or advice on any topics in this issue, don't hesitate to contact your local office.

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Pension Planning for High Earners

There has been much written about the pensions anti-forestalling legislation and the general perception is that high earners with income in excess of £150,000 will only receive higher rate tax relief on pension contributions up to £20,000 or £30,000 in some circumstances.

However, the assessment of 'relevant income' for these purposes is unique and does give scope for clients with income above £150,000 to still make significant pension contributions and qualify for the full tax relief.

The calculation of relevant income includes all the usual sources of income, as you may expect (for example, earnings from employment, interest from savings, and dividends) but the rules allow the first £20,000 of pension contributions to be deducted from earnings along with charitable donations made under gift aid.



HMRC can investigate and overrule any artificial device or strategy that claims to reduce or deflate someone's relevant income below the £150,000 threshold.

Consider a client with earnings from employment of £170,000 and additional income of £5,000 who wishes to make a pension contribution of £50,000. Initially, it would seem that this is going to be caught by anti-forestalling but if the client also makes a donation to charity via gift aid of £6,000, the calculation for relevant income becomes:

Earnings from employment	£170,000
Other Income	£5,000
Less £20,000 in respect of pension contributions	- £20,000
Less gift aid donations	- £6,000
Relevant Income	£149,000

Even without gift aid, the effective income limit for full tax relief will be £169,999 assuming pension contributions in excess of £20,000 are paid.

However, do remember that the previous two tax years are also tested and individuals are still caught if their relevant income is £150,000 or more in either of those years.

Not so early retirement

You probably have a number of clients who are thinking about retiring early but they may have to reconsider their plans as from 6 April next year the minimum age for taking benefits from a pension scheme rises from 50 to 55.

Whilst it is only a lucky few who can fully retire at such an early age, many people may want to take part of their pension early to give them freedom to reduce working hours or to provide a lump sum for a special purpose. The good news is that if you do have clients reaching age 50 before

April 2010 or who are in their early 50s, then there is still time to make plans for retirement.

It is also important to review clients under the age of 55 that may already be phasing their retirement benefits. They may well find next year that they are unable to take further benefits for a number of years leaving them suddenly short of income.

Of course, retirement options are no longer restricted to purchasing an inflexible annuity. Via income drawdown, or unsecured pension as it is now referred

to, it is possible to take a lump sum and defer the income until required or alter the income stream within certain limits to suit a client's changing circumstances or tax position. Taking retirement benefits early is not without risks and also impacts on the potential benefits for a client's family in the unfortunate event of early death. It is vital that all these factors are considered before drawing up a bespoke retirement plan.

Please contact your local Oval consultant should you wish to discuss in more depth retirement solutions for your clients.

Tax Planning Benefits of Enterprise Investment Schemes

Following the changes in this year's Budget, EIS investors are able to 'carry back' income tax relief on their entire investment to the previous tax year. Before the Budget change, investors could only carry back the 20 per cent tax relief allowed on EIS investments up to a limited amount of £50,000. Now they can claim relief on up to £500,000, giving a potential carry back of income tax relief to the previous tax year of up to £100,000.

This is a particularly useful vehicle for clients whose income tax liability may be subject to a pronounced increase from one year to another as their earnings recover following the recession. For example, a client has a substantial income tax liability in 2009/10, following a leaner 2008/09. He knows that after his payment on account in July 2010 he will have a balancing payment of £75,000 due on 31st January 2011, together with a Capital Gains Tax bill of £15,000. He makes an EIS investment in

May 2010 of £375,000, carried back to 2009/10, which reduces his impending January tax bill to nil.



EIS investments have additional tax benefits, in the form of full IHT business property relief after two years and Capital Gains Tax deferral on gains made in the three years prior to the investment and the year following.

Several specialist providers now offer EIS which seek to limit investment risk through control of the underlying companies and the creation of bespoke investment vehicles. Exit strategies for investors are also targeted for 3 - 4 years following investment.

Hints & Tips

- **The pension lifetime allowance will be frozen from the next tax year** until at least 5 April 2016 at £1.8 million. For clients with pension funds close to this limit, it is important that the investment strategy is reviewed to avoid the punitive tax charges of up to 55% on any excess when taking benefits.
- **Much has been said about the potential use of Venture Capital Trusts (VCT)** as an alternative retirement planning strategy due to the 30% initial income tax relief but a portfolio of VCTs can also generate a tax efficient income stream in retirement. Clients who acquire ordinary VCT shares are exempt from income tax on any dividends paid providing the original subscription was within the permitted maximum, which is currently £200,000.
- **From September the interest rate on late paid inheritance tax increased to 3%** at a time when bank base rate is at an all time low of 0.5%. This has to be paid within 6 months of death, which could be problematic if the bulk of the estate is tied up in property or other illiquid assets. A simple solution could be to consider appropriate life assurance written under trust.

Income sharing for couples

Couples where one party has income in excess of £150,000 are in a strong position to possibly avoid the 50% income tax rate and even the loss of personal allowance from £100,000 after 6 April next year by taking steps to ensure that income is shared equally between them.

For business owners, one solution is to bring their spouse or civil partner into the business so as to share profits. This could be simply by employing them but in order for the salary to be tax deductible, it should be commensurate with the duties performed and meet the 'wholly and exclusively for the purposes of trade' condition.

For a limited company, the alternative is to transfer shares so that the spouse or civil partner can be paid dividends. Although HMRC have tried to challenge this practice with the Arctic Systems case, the threatened legislation to close the loophole has not materialised. Providing the shares transferred are fully participating ordinary shares, it would seem that this way to tax saving remains open.

For non business owners, there are a number of simple investment planning solutions that may help reduce the joint income tax bill:

1. Ensure that Individual Savings Account (ISA) allowances are fully utilised. Income from ISAs is tax free although the tax credit paid with UK dividends cannot be reclaimed so these may be a more suitable home for interest bearing investments. For individuals over age 50, an increased maximum allowance of £10,200 is already available with this being available to all from 6 April next year.
2. Consider investment in assets that generate capital gains rather than income to benefit from the 18% tax rate and a current annual exemption of £10,100.
3. Use an offshore bond for investments. This could defer tax until your clients are paying tax at a lower rate or the bond could be assigned before encashment to a lower tax paying spouse or civil partner.
4. Transfer income producing assets from the spouse or civil partner in the higher tax bracket to the one in the lower tax bracket.