

2010 - difficult journey for high earners

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2010 is lining up to be a difficult financial journey for high earners, with the Government's proposals to reduce tax reliefs and increase tax rates.

It seems a shame that the present Government's efforts to balance the books is weighted heavily against those with an entrepreneurial spirit, owners of SMEs who have worked hard through the recession to keep the economy moving and to keep people in jobs.

Perhaps a change of Government will result in a different focus and some relief for the high earners, it is still unclear whether a Conservative government would backtrack on the pension relief shutdown. If you're putting your money on David Cameron, you still need to have a back-up plan and, as far as pensions go, the only safe bet is to get in early and get that pension sorted.

In layman's terms, the Government is removing higher rate tax relief on pension payments in excess of £20,000 a year for anyone earning in excess of £130,000. Prior to this change, investing in a pension has been an opportunity not only to prepare for the future, but also to ensure the money contributed receives full tax relief. The move is essentially designed to stop pensions being seen by high earners as an attractive way of saving, manoeuvring that money into other products, which are subject to tax.

However, the pensions issue is only one of many new traps you need to steer clear of to reap the benefits of your toil and not find your money swallowed up by the Treasury this year. With the right financial advice, it is possible to do this legally and you don't have to keep sailing past the icebergs and on to a tax haven abroad.

The big tax change looming on the horizon for those who earn more than £150,000 per annum is the new higher income tax rate of 50%, announced by the Chancellor Alistair Darling in the 2009 Budget. We can all see it looming, like the proverbial iceberg, but around it are a number of smaller obstacles that might easily be overshadowed and catch you unawares without careful guidance.

When you add the removal of the personal allowance for earnings in excess of £100,000 to the pot, that 50% in reality becomes a marginal tax rate of 60% for earnings between £100,000 and £112,950. There is also a 1% hike in National Insurance approaching in 2011.

Actually, it needn't be as gloomy as it first seems. As I mentioned earlier, the right guidance can, if not avoid collisions with these tax icebergs, then take some of the chill out of them. For example, opportunities exist to restructure your business to create funds that attract only 18% capital gains tax, which could be reduced further to 10% if you qualify for entrepreneur's relief. This type of restructure is something we have successfully managed for a number of clients in the past and it can make a real difference.

Such action can make it possible to face the changes head on and with confidence that the government's tax plans don't bite too hard, but you have to find the right path through the icebergs, because each one you fail to avoid can break holes in your income.

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