



## Personal Taxation and Savings

### Income tax rates

Rates announced for 2009/10 are as follows:

	2009/10	2008/09
Basic rate band	£37,400	£34,800
Basic tax rate	20%	20%
Dividend ordinary rate	10%	10%
Starting savings rate band to	£2,440	£2,320
Tax rate	10%	10%
Higher rate	40%	40%
UK dividend income tax rate	32.5%	32.5%

### Personal allowances

Rates announced for 2009/10 are as follows (\*ages are as at the end of the tax year):

		2009/10	2008/09
<b>Allowances that reduce taxable income</b>		£	£
Personal allowance	under 65	6,475	6,035
	65 to 74*	9,490	9,030
	75 and over*	9,640	9,180
<b>Allowances that reduce tax</b>			
Married couple's allowance			
Age of elder spouse	74*	nil	653.50
	75 and over*	696.50	662.50
	minimum	267.00	254.00
The age-related allowances are progressively withdrawn if income exceeds		22,900	21,800

### Additional rate of income tax and income-related reduction of the personal allowance from 2010–11

The following income tax changes will have effect on or after 6 April 2010:

- Taxable income over £150,000 will be subject to an income tax rate of 50%
- Dividends otherwise taxable at the 50% rate will be taxed at a new 42.5% additional rate
- Where an individual's 'adjusted net income' is above the income limit of £100,000, the personal allowance will be gradually reduced to nil. The amount of the personal allowance will be reduced by £1 for every £2 above the income limit. 'Adjusted net income' will be calculated in the same manner as the prevailing income related adjustments to personal allowances for those aged over 65
- The dividend trust rate will be increased from 32.5% to 42.5%. The trust rate will increase from 40% to 50%.

## Taxation of personal dividends

Individuals with shareholdings of less than 10% in a non-UK resident company are entitled under the prevailing tax legislation to a non-payable dividend tax credit when they receive a dividend from that company. From 22 April 2009, individuals with shareholdings of 10% or more in a non-UK resident company will be entitled to a similar non-payable dividend tax credit. The only caveat is that the country from which the dividend is paid must have a double tax treaty with the UK that contains a non-discrimination clause.

## Taxation of personal dividends – distributions from offshore funds

From 6 April 2008, individual shareholders with less than ten per cent of the equity in a non-UK resident company have been entitled to a non-payable dividend tax credit. The tax credit was withdrawn for offshore funds.

Legislation will be introduced in Finance Bill 2009 to restore the non-payable dividend tax credit for offshore funds which are largely invested in equities – the changes which are effective from 22 April 2009 will apply to all holdings in offshore funds. In cases where the offshore fund is substantially invested in interest bearing assets, individuals receiving distributions will be treated as having received interest rather than a dividend.

## Anti-avoidance: interest relief

With effect from 19 March 2009, legislation will be introduced in Finance Bill 2009 to block tax avoidance schemes that allow individuals to claim relief for interest payments that are used in avoidance arrangements that guarantee that the borrower will be able to make a profit as a result of the availability of the relief.

## Transfers of income streams

In cases where a person sells or otherwise disposes of a right to receive income, without selling the underlying asset from which the income derives, tax law provides that the receipt is taxed as income rather than as a capital gain – however these statutory rules are not comprehensive. A principles-based code is to be introduced in Finance Bill 2009 to ensure that all such receipts are taxable as income, rather than as capital. The legislation will have effect for transfers taking place on or after 22 April 2009.

## Avoidance using employment income legislation

Legislation will be introduced in Finance Bill 2009 to curtail avoidance schemes that seek to abuse reliefs available for employment-related liabilities and losses incurred by employees and former employees. These contrived employments are only established for the purposes of the schemes. Such liabilities and losses are generally created by intentional acts of default. The measures will be effective from 12 January 2009, but will have no impact if individuals using the relief are not seeking to avoid tax.

## Living accommodation provided by reason of employment: payments of lease premiums

Employees who occupy living accommodation provided by reason of their employment are subject to a tax charge usually based on the actual rent paid. Schemes have been devised whereby a large lease premium is paid, thereby depressing the level of the rentals, and also the tax charge. For leases entered into or extended on or after 22 April 2009, if a lease premium is paid for a lease of ten years or less, that premium will be treated as if it were a rental payment, and taxed by spreading the premium over the term of the lease.

The new rules will not apply to leases that are entered into that are used mainly for business purposes by the employer, and only partly for the domestic use of an employee.

## Reclaiming income tax, capital gains tax and corporation tax overpayments

Legislation will be included in Finance Bill 2009 to provide a means of reclaiming overpayments of income tax, corporation tax and capital gains tax where there is no other statutory route. It will replace any non-statutory claims. The legislation also amends the error or mistake relief rules to provide additional taxpayer safeguards. The following should be noted:

- The measure will be effective on or after 1 April 2010
- The time limits for claiming repayments are currently five years and ten months to six years from the end of the period for which the return was made. This will be reduced to four years from 1 April 2010.

## UK personal allowances and reliefs for non-resident individuals

Individuals who are not resident in the UK normally have no entitlement to claim UK personal allowances and reliefs for income tax. There is a limited range of circumstances under which such allowances may be claimed, one of which is being a commonwealth citizen. HM Revenue & Customs has been advised that this is not compliant with the Human Rights Act, and legislation will be introduced to withdraw that entitlement. The vast majority of individuals affected will still be able to benefit through other means, such as the provisions of a double tax treaty. The change

will mainly affect citizens of countries such as Bahamas, Samoa and Tonga. The restriction for commonwealth citizens will have effect from 6 April 2010.

## Offshore funds

Legislation will be introduced in Finance Bill 2009 to change the definition of an offshore fund for UK tax purposes and to amend the existing powers to provide for the modernisation of the regime in regulations. The new definition of an offshore fund uses a characteristics based approach which has been the subject of detailed consultation. Transitional rules will provide 'grandfathering' for investors in existing arrangements. The new regime will be effective from 1 December 2009.

## Child trust fund – payments for disabled children

The Government will contribute £100 per year to the child trust fund accounts of all disabled children, with £200 per annum for the severely disabled. The payments will commence in April 2010 for all children in receipt of disability allowance at any point in 2009/10.

## The remittance basis – minor amendments

A number of changes will be made in Finance Bill 2009 to the remittance basis regime which became effective from 6 April 2008, including the following:

- An individual can use the remittance basis to bring property in to the UK which has been purchased out of income from overseas investments and savings without triggering a liability to UK tax. The scope of this exemption will be extended from 6 April 2008 to include property purchased out of foreign employment income and foreign chargeable gains.
- Individuals employed in the UK have to file a UK tax return if they have also received income from an overseas employment in the same year. This obligation will be removed from 6 April 2008 where the overseas employment income is less than £10,000, and any overseas bank interest is less than £100 in a tax year, providing that the income has been subject to foreign tax.
- It has been specifically confirmed that if an individual has unremitted foreign gains and income of less than £2,000 in any tax year, that individual will be treated as having used the remittance basis unless HM Revenue & Customs are specifically notified that the arising basis applies.

## Individual savings accounts

The ISA limit is currently £7,200, of which £3,600 can be saved in a cash ISA with one provider. The limit will be raised to £10,200, up to £5,100 of which can be saved in cash. The new limits will apply to people aged 50 or over in 2009/10, and for all ISA investors from 2010/11 onwards. Raising the ISA limits for people aged 50 or over for 2009/10 will have effect on or after 6 October 2009, and for everybody else on or after 6 April 2010.

## Pensions: limiting tax relief for high income individuals

The Government has announced its intention to restrict, to the basic rate of income tax, tax relief on pension contributions with effect from 6 April 2011 for people with taxable income of £150,000 or more.

It will not be possible to increase pension contributions between now and 6 April 2011 to take advantage of the restriction in the tax relief, if the following conditions are met, for an individual with an income of £150,000 or more who, on or after 22 April 2009:

- Changes their normal pattern of regular pension contributions, or
- Changes the normal way in which their pension benefits are accrued, and
- Their total pension contributions/benefits accrued exceed £20,000 a year.

These anti-forestalling provisions will apply to both final salary and money purchase pension schemes on or after 22 April 2009. Individuals with income of less than £150,000 for the tax year, and both the preceding two tax years will not be affected. Neither will individuals with income of £150,000 or more between now and 6 April 2011, providing their existing pattern of making pension contributions does not change, and they do not make any additional contributions.

In cases where regular pension savings exceed £20,000, the new tax charge only applies to any pension savings made on or after 22 April 2009 in excess of regular savings. If the regular savings are less than £20,000, the tax charge only applies to any excess over £20,000. The tax charge restricts tax relief on the additional pension savings to the basic rate of income tax.