



Julia Casimo

Dilemma for a high earner

Q. I am both employed, by the NHS and also self employed, writing medical reports. My employed income is steady (I am a higher rate tax payer with a salary of about £80,000), but my self employed income varies year on year. I obviously want to try to avoid the new 50% tax rate if I can. Do you have any advice?

A. The new 50% tax rate comes into place in April 2010. As well as taxing total income over £150,000 at 50%, there is also an increased tax charge on incomes over £100,000 with the withdrawal of the personal allowance. The personal allowance will disappear completely for anyone earning £112,950 or over. Therefore, if the standard personal allowance in 2010 is £6,505 this will cost someone earning £113,000 a total of £2,602, creating a very nasty 'marginal rate' of around 60% at these levels of income.

A simple way of smoothing your income to minimise the impact of the new tax rates would be to operate your report writing business through a limited company. This would mean that you could choose to smooth the income from the company by timing extraction of funds by way of dividend, to minimise the new higher taxes as much as possible.

Q. Is there anything else I need to consider?

A. You will need to ensure that the limited company is in operation by the beginning of the 2010/2011 tax year.

Operating as a limited company brings a greater administrative burden, but a good accountant can help you with this.

You will also need to tell your customers about your new trading entity, and ensure that all insurances and registrations are transferred. Obviously you will need to operate a new bank account for your company.

Overall the extra administration is likely to be worth the tax saved.

As with many decisions you really do need to take independent financial and tax advice. If you would like our help call Julia on **0151 228 8977** at **John Kerr Chartered Accountants** 369-375 Eaton Road, West Derby, Liverpool L12 2AH. Authorised and regulated by The Financial Services Authority

