

Making use of your spouse

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How to minimise the impact of 60% income tax.

Following the successful fight against HMRC in the Arctic Systems case, Darling's team issued a consultation paper last year on Income Shifting - basically the government's attempt to close the tax planning opportunities that arise from shifting income between spouses to maximise the use of personal allowances and minimise the impact of higher rate tax.

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The tax profession had expected that legislation would be introduced building on the previous announcements but to my surprise nothing appeared in the multitude of Revenue press releases on Wednesday. Upon further inquiry it seems that the attack on husband and wife planning has abated and the white paper assigned - for the time being - to the archives.

This is one of the few good pieces of news for small business owners who have been shocked at the thought of a marginal rate of tax on their income between £100,000 and £114,000 - arising from the withdrawal of personal allowances at the rate of £1 for every £2 earned over £100,000 - not to mention the 50% rate of income tax on earnings over £150,000 from April next year.

With such draconian hikes in the rate of tax, business owners will be looking to their advisors for ways of minimising these extra liabilities and making good use of a spouse's capacity to earn should be back at the heart of any tax planning review for small and medium sized business owners.

The only other glimmer of positive news was the abolition of the 'expensive' car rule which previously limited claims for capital allowances on cars by businesses. For the 2009/10 tax year onwards capital allowance can be claimed at the full 20% for standard CO2 emitters and at 10% for high CO2 emitter - a clear incentive for businesses to get out and reward their top executives with a new Aston Martin!

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