

UK Tax Alert

February 13, 2013

Reminder: Reduction in Income Tax Rate

As announced in the 2012 Budget¹, and confirmed in last year's Autumn Statement², the United Kingdom's highest rate of income tax is to be reduced to 45 percent³ from 6 April 2013.

Because the rate change does not come into effect until 6 April 2013, managers may (to the extent they haven't already) wish to think about ways to defer income and realise a 5 percent income tax saving.

Example: An opportunity for employees

Broadly, earnings of employees who are not directors can be deferred at any time before the earlier of the date:

- these are paid; and
- the employee has any entitlement to receipt of the income.

Where an employee must wait until a later date or meet additional criteria before he or she may insist on payment, he or she should not be deemed to have received the earnings. Managers may therefore wish to consider whether discretionary bonuses, for example, can be deferred until after 5 April 2013.

While the deferral planning alluded to above should not be considered aggressive by Her Majesty's Revenue & Customs (who have declined to introduce forestalling legislation), care needs to be taken. For example:

- to ensure that entitlement does not arise earlier than desired; simply moving the payment date of bonuses is unlikely to achieve the intended tax outcome
- where certain individuals express a wish not to participate in deferral, and so a deferral programme is not introduced in a uniform manner.

It will also be necessary to consult with employees in good time so that, for example, they can consult with their personal tax advisors to understand the impact of any deferral to 2013/14 on their personal tax affairs (such as claims for any income dependent tax reliefs).

If you have any questions regarding the above, or would like to discuss implementing deferral with Akin Gump Strauss Hauer & Feld, please do not hesitate to contact us.

¹ <http://www.hmrc.gov.uk/budget2012/index.htm>

² <http://www.hmrc.gov.uk/budget-updates/march2012/autumn-statement-dec2012.htm>

³ For those with taxable income in excess of £150,000.

Contact Information

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