For Immediate Release

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GOOD NEWS HIDDEN IN PBR

The Pre-Budget Report ("PBR") focused on VAT reductions now with other tax rises later. But hidden within the report was some good news for some businesses.

In many cases, the proprietor of a business sets their company up with shares held by their spouse, who doesn't work in the company, but who gets dividends. If the spouse has no other income and the proprietor is otherwise a higher-rate taxpayer, you can save quite a bit of tax that way. The Revenue tried to argue that the spouse's dividends really belonged to the proprietor in the famous *Arctic Systems* case. When they lost this in front of the Courts, they then tried to change the rules so that paying dividends to non-working spouse doesn't work.

The new rules were to be called the Income Shifting Rules. Originally they were supposed to kick in from April 2008. These rules would mean that arrangements where family businesses are split between family members would no longer be effective for tax planning.

But the 2008 start date was put back. The expectation was that the 2008 PBR would set out proposals for 2009 onwards.

Instead, the PBR said that Income Shifting Rules will not come into force in 2009, and it doesn't say when (if ever) they will take effect. So for "husband-and-wife companies", the ability to mitigate tax by sharing dividend income will continue at least until 5 April 2010. And if companies are not split between spouses, it may be worth considering doing so because there is at least this and next tax year where you can benefit from it.

For more guidance on this speak to Gerry Jackson in our Oxford office on 01865 261100.

Notes
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Fresh Start is an industry led initiative to encourage new entrants into farming as well as to help established farmers think about how they can develop their business or even plan their exit from the industry handing on to the next generation.

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