

There are just a few weeks left before taxes on income soar to their highest level in decades. About 600,000 people earning more than £100,000 a year will suffer a 61.5pc marginal tax rate – unless they take action soon.

Personal allowances are being withdrawn for people in this earnings brackets – including most doctors, head teachers and many others who would never regard themselves as “fat cats”. A personal allowance is the amount you can earn before paying tax and is currently £6,475. From April 6, if you earn above £100,000 you’ll lose £1 of this allowance for every £2 of income above the threshold. So, by the time earnings hit £112,950 the allowance will be completely lost.

Phase two of the attack on high earners will see a new 50pc tax slapped on earnings of £150,000 or more. If this wasn’t bad enough, the amount of extra tax relief you can get when paying into your pension if you earn £150,000 or more is being axed, but not until 2011.

Here’s what you can do now to help protect your wealth.

1 PAY MORE INTO A PENSION

This is the simplest way to take yourself out of the salary brackets being hit. So if your salary is £110,000 you could pay £20,000 into your pension meaning you only have a taxable income of £90,000 so you can still enjoy a tax-free personal allowance. Not only do you get to keep your allowances but the contributions will also get higher-rate tax relief – so the Government is actually paying you money into your pension. This works out as a 60pc tax relief.

2 CHILD’S PLAY

Another way to salary sacrifice – diverting money from your pre-tax salary – is through child-care vouchers.

Parents of children under the age of 15 can ask their employer to give them these vouchers, which will reduce their taxable earnings. Both parents are allowed a maximum of £243 a month each – which works out as £2,916 per person – which can be taken off your pre-tax earnings, thereby avoiding tax and in some cases bringing you out of a targeted salary bracket.

But you need to check your employer offers the vouchers.

3 GO PART-TIME

Someone earning £100,000 or more is more likely to be

closer to retirement than the average worker. So reducing your hours and salary could be a reasonable option. While, of course, your salary will be lower, you will avoid many of the new tax changes and can make up any income shortfall by drawing some of your pension while still working.

This can be done once you hit 50 years old, although this rises to 55 from April 6.

4 CHARITY BEGINS AT HOME

A charitable donation is another form of salary sacrifice, although you’re not diverting money back to yourself. But it could prove worthwhile as you may move out of the £100,000 bracket and save tax. There’s also the upside of gift aid – tax relief paid by the Government on your donation. The charity gets 20pc basic tax relief, but you can reclaim 20pc or 30pc depending on your tax position.

5 USE YOUR ALLOWANCES

If your earnings are above £130,000 and you’ve used up your pension contribution limits, think about contributing for your spouse. A non-earning spouse has an annual contribution limit of £2,880, of which the Government will add £3,720 in tax relief, even though your spouse pays no tax.

6 IT PAYS TO VENTURE

There are investment vehicles that offer sizeable tax breaks if you are prepared to take high risks with your money. The most generous being Venture Capital Trusts (VCTs) which offer a 30pc tax rebate. Your money will go into a fund that will be used to help start up or nurture small businesses. Your money is spread across many small firms, so should one fail, it should have little impact on your returns. But you have to invest your money at the launch of a VCT or during a top-up to enjoy the tax breaks. So the extra tax you’ll be paying could be recouped via a VCT. But you can never get a tax rebate of more than you’re liable for.

7 TAKE A SIPP

The easiest way to contribute more into your pension is to take out a Self-invested personal pension (Sipp) and make the payments yourself. Sips are flexible and low-cost pension shells where you can shelter your own investments. Depending on your circumstances you could put away £30,000 into a Sipp, until April 2011. There is a transitional period of this

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current tax year and 2010-11 when you can still use your allowances (this will bring pension tax relief of up to 50pc from April 6) so make the most of them.

Laith Khalaf, pension expert at Hargreaves Lansdown, says: “Those with income over £130,000 have up to a £30,000 annual pension allowance that they can use in this tax year and next before their higher-rate relief gets axed; if it’s any consolation the tax relief of the remaining three million higher-rate taxpayers may not be far behind.”

Cheap providers include Killik, Alliance Trust and Hargreaves Lansdown.

8 MOVE YOUR ASSETS

While you are restricted on moving any of your salary into a spouse’s name you can still do this for other “relevant income” that might push you into a higher tax bracket. Dividends from shares, income from bonds and savings’ interest are all examples of income that could be moved into a spouse’s name who has a lower income tax liability. Though it’s not just a spouse, but other family member’s tax positions you can take advantage of. But be aware of capital gains tax (CGT) and inheritance tax (IHT) liabilities.

9 TAKE SHELTER

There are many tax-free options to seek out along with VCTs. Two other worthwhile ones include Enterprise Investment Schemes (EIS) and Individual Savings Accounts (Isas). An EIS offers a tax rebate of 20pc, which is lower than that of a VCT, but still valuable. The risks are also higher, as your money is only invested in one company rather than being diversified. With the end of the tax year approaching make sure you use all your “use it or lose it” allowances that can’t be rolled over into the next tax year. One of these is Isas. You can put away a maximum of £7,200 this tax year rising to £10,200 from April 6.

10 GO FOR GROWTH

If you have to pay tax, then a good motto is pay as little as you can. Income tax will soon be a maximum of 50pc while capital gains tax is 18pc once you breach the £10,100 annual limit. But relatively few people come close to breaking the CGT limit, so think about what investments you can move into growth-building rather than income-generating ones. The new 50pc tax means dividends from investments will be taxed at 42.5pc.