

# UK Finance Act 2009 impacts US law firms operating in the UK

## In Brief

The 2009 Finance Bill, which received Royal Assent on July 21, 2009 and was enacted as Finance Act 2009, contains a number of elements which will have a significant impact on US law firms operating in the United Kingdom.

## New 50% Tax Rate

A new 50% tax rate will apply starting April 6, 2010. The new rate will apply on income in excess of £150,000. The existing 20% and 40% tax rates will continue to apply to lower levels of income.

For the majority of tax partners in US law firms who are assessed on the 'current year basis', profits arising in the year through to December 31, 2010 will be subject to UK taxation at the new 50% tax rate.

UK resident non-domiciled partners will need to consider the impact of the new tax rate on their personal position when reviewing whether they should elect to be taxed on a worldwide or a remittance basis for 2010/11 and subsequent years. Since income in excess of £150,000 will be taxed at 50%, partners may find that restricting the amount of income which is subject to UK tax by electing for the remittance basis is beneficial, even after the £30,000 Remittance Basis Minimum Charge (RBMC) has been taken into account.

For many law firms, the 50% tax rate will only apply to UK resident partners since for most, the UK source income allocated to nonresident partners is generally beneath the £150,000 threshold. However, where nonresident partners receive UK income in excess of £150,000 per annum, advice should be sought to investigate ways to minimize the impact of the 50% tax rate, which is generally higher than tax rates in the partners' home jurisdiction.

Another change included in the Finance Act, which will generally affect only UK residents, is the reduction of the personal allowance for those earning in excess of £100,000 per year from 2010/11. The allowance (£6,475 in 2010/11) will be reduced by £1 for every £2 of income above £100,000, meaning that individuals with income in excess of £112,950 will receive no allowance at all.

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## Law Firm Services

### Restriction of Tax Relief for Pension Contributions

Also beginning April 6, 2011, tax relief for pension contributions made by individuals earning more than £150,000 will be restricted. The restriction will be gradual, such that tax relief on pension contributions for those with an annual income of £180,000 or more will be restricted to the basic rate (20%).

There has been a slight relaxation to the 'anti-forestalling' measures announced in the Budget which sought to restrict higher rate tax relief for pension contributions made between Budget day (April 22, 2009) and April 6, 2011. The anti-forestalling measures previously capped higher relief for 'irregular' pension contributions at £20,000 per year. An increased £30,000 annual limit for irregular contributions has been introduced, subject to certain criteria.

The changes in the UK pension rules, combined with the introduction of the 50% tax rate, mean that US law firms should review their existing guaranteed payment arrangements for UK partners. The position for each firm will be different depending on the levels of UK source income and the personal positions of the partners based in London.

### Increased Capital Allowances

A temporary 40% First Year Allowance has been introduced for plant or machinery acquired between April 6, 2009 and April 5, 2010. The allowance applies to acquisitions of plant or machinery which would otherwise have attracted a write down allowance of 20%. Firms should therefore consider the timing of capital expenditure in the UK to maximize the relief available. In particular, firms with a December 31 year-end for UK tax purposes can maximize tax relief if a qualifying expenditure is incurred between January 1, 2010 and April 5, 2010.

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PricewaterhouseCoopers' team of partnership tax specialists has extensive experience advising US Law Firm clients on both sides of the pond. Our team can assist your firm in addressing these changes and their effect on your UK partners while minimizing excess foreign tax credits for your US partners. Please contact Stanley Kolodziejczak at (646) 471-3160 or Gregg Sincoff at (646) 471-1335 in New York, or Clive Macintosh +44 (0) 20 7804 5614, Keith Orr +44 (0) 20 7804 4791, or John Taylor +44 (0) 20 7213 8272 in London.

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