

# The Barrister and 50% Income Tax Rate

By Julie Butler

**J**ulie Butler has some sound advice for why every barrister needs to take a close look at the impact of the forthcoming 50% income tax rates. From 6 April 2010 there is a 50% tax rate of income over £150,000. In addition, the personal allowance will be abated for income between £100,000 and £112,950.

## Why Particularly the Barrister?

Firstly, there are large income and profit swings which can go above and below the £100,000. There could be years when the full 40% rate will not be used and other years with the heavy 50% tax rate. The abated personal rate will also be a clear irritation in the years of fluctuation of profit.

Secondly, there are problems of the calculation of work in progress (WIP) (under technical rules known as 'UITF 40') and the problems of the long term nature of a lot of the work - the need for "professional judgement".

Thirdly, there are problems of debt collection and bad debts which needs provision in the Accounts.

## The Need for Professional Judgement

Work completed at the end of the barrister's accounting period must be brought into account as debtors, in the amount of the agreed or anticipated fee (the latter may necessitate professional judgement). In the case of incomplete work which straddles the end of the barrister's accounting period, it is necessary to bring in a reasonable estimate of

the fee earned as a result of the work done by that date. All of the above is subject to the 'materiality concept' (a concept referred to in technical guidance on the rules).

There is no doubt that objectivity could be threatened by the difference between 40% and 50% tax or the loss of personal allowances.

## Action Plan: Short Term - 2010/2011

If the 50% rate looms in 2010/11 then try to legitimately include as much in 2009/10 as possible and "bank" the 40%. However, if borrowings have to be obtained to pay for the 40% now it could be argued that this is marginal compared to the 10% tax saving. It will be essential to produce draft accounts and forecasts NOW to review the position.

## Medium Term Planning

As mentioned, objectivity will be a problem. However, where there is uncertainty about both WIP and debtors if the barristers accounts are approved and signed as soon as possible it can be argued that the greater uncertainty could mean a more prudent approach to WIP and debtors. However, if the accounts are finalised a long time after the year end there will be more certainty.

## Practical Tip



The date of approval of accounts and tax returns might become a tax planning tool for barristers. However, the questions must be asked - barristers producing accounts in a timely manner and working on projections.