



## DOCTORS NEWSLETTER

APRIL 2011

### Budget snippets

- The tax free amount for claims for business mileage is raised to 45p per mile for the first 10,000 miles.
- The reduction in the annual investment allowance for expenditure on plant and machinery from £100,000 to £25,000 from April 2012 was confirmed, so significant purchases of equipment should take place before that date to maximise the tax relief available.
- The inheritance tax nil rate band is frozen at £325,000 until April 2015 so married couples should consider using nil rate band trusts in their wills rather than simply leaving everything to each other.
- The rate of tax relief on Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) investments is increased to 30% and may make these more attractive particularly given the potential capital gains tax free exit route; however the tax breaks should not be the sole motive for the decision to invest.

### Latest on pensions

#### For GPs

As mentioned in our previous newsletter, the lifetime allowance for pension contributions remains at £1.8 million until 5 April 2012, thereafter reducing to £1.5 million. There will be many GPs contemplating retirement in the next few years who will have pension funds that fall between these amounts and potentially face a tax charge of 55%

on the excess lump sum and 25% (in addition to the normal income tax charge) on the excess pension if they draw this after 5 April 2012.

There are some options available, as follows:

- Take more lump sum on retirement, with a lower pension, which should reduce the value of the pension fund for comparison with the lifetime allowance. The fund is valued at twenty times the pension plus the lump sum. For every £1 of pension that is given up the lump sum is increased by £12, so it can be seen that increasing the lump sum will produce a lower overall figure. However, the lump sum cannot exceed a maximum of 25% of the capital value of the pension fund.
- Take 24 hour retirement to trigger the NHS pension before 5 April 2012 so that it falls within the higher lifetime allowance. If the GP continues to work, there may be an additional tax cost, bearing in mind that individuals with income in excess of £100,000 lose their personal allowance and income in excess of £150,000 will be taxed at 50%. This extra tax cost has to be balanced against the saving of the tax charges referred to above in the future. Another motive for drawing the NHS pension sooner rather than later is that there will be certainty over the income stream in retirement, given the possible changes to the scheme and public

sector pensions schemes in general in the future. There are of course timing issues with 24 hour retirement such as the amount of notice required under the partnership agreement and by the PCT.

- Apply to “ring fence” the higher lifetime allowance of £1.8 million before 6 April 2012. This is likely to be of limited application to GPs as, unlike the previous protections available when the lifetime allowance was first introduced in April 2006, this protection can only be claimed if no further pension contributions are to be made.
- Retire fully by 5 April 2012. Again this is of limited application as it will only be an option for GPs who want to retire around that date anyway.

When to retire is a major decision for anyone, and although the tax considerations are important, we feel other factors, such as lifestyle, financial security in retirement etc, are equally important and are always happy to discuss the pros and cons to enable an informed decision to be made.

Turning briefly to the new annual allowance of £50,000, at the time of writing the mechanics of how accountants acting for GPs will identify whether this has been exceeded are uncertain, and we will provide further advice as soon as possible.



### For Practice Managers

The changes in the annual and lifetime allowances are also relevant to practice employees who are members of the NHS pension scheme. The main area to be considered is the annual allowance; the vast majority of employees may not be affected but individuals who receive a significant pay rise, are promoted to a higher paid role, have a long period of pensionable service or earn pension at a higher rate than the normal Scheme accrual could be.

It is important that practice managers know staff may be affected, and we are happy to provide guidance if needed.

### Partnership agreements: how to deal with the surgery premises when a partner leaves?

If the partnership agreement contains a clause that requires the ongoing doctors to purchase the share in the practice premises of an outgoing partner, the interests in the premises of the individual partners will not qualify for 100% business property relief, because the clause just described constitutes a binding

contract for sale. This is easily rectified, by having instead a clause giving both the ongoing partners and the outgoing partner options to have the share of the outgoing partner purchased by the ongoing partners; an option is not a binding contract. However, given that the availability of business property relief is only going to be relevant when the change in partnership is due to a partner's death, as opposed to departure for any other reason, a binding contract may be more appropriate. This then avoids the need to serve option notices; if there is a failure to do this the partnership will dissolve, with potentially serious consequences. These include a lack of security for the partners because the partnership is no longer governed by the partnership agreement, the automatic termination of the practice's contract with the PCT and potentially the need to make staff redundant and dispose of the partnership assets. Accordingly, this may be a situation where commercial considerations should take precedence over tax ones.

### In brief

We are pleased to announce two members of our medical team have

recently gained professional qualifications which will enable them to bring extra skills to their work. Alison Wagerfield is now an Associate member of the Chartered Institute of Taxation and Emma Cook an Associate member of the Association of Chartered Certified Accountants.

### AISMA Doctor Newslines

Please note that for other topical articles the latest copy of AISMA Doctor Newslines, the newsletter for GPs and practice managers published by our membership organisation, the Association of Independent Specialist Medical Accountants, is now available on our website.

[www.edmund-carr.co.uk](http://www.edmund-carr.co.uk)

### Disclaimer

This newsletter is intended to give general guidance only and no liability can be accepted for any action taken based on the information given.

**EDMUND CARR LLP**

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**If you think this information is of use to a friend or colleague, why not forward it on.**

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