



DOCTORS NEWSLETTER

JUNE 2010

Welcome to our first newsletter of 2010 covering topical accounting and tax matter of interest to general practitioners.



CHANGES IN TAX RELIEF ON PENSION CONTRIBUTIONS

The previous government introduced measures to restrict tax relief on pension contributions for individuals whose income exceeds £150,000 per annum with effect from 6 April 2011 onwards. Given the desire of one part of the new coalition to restrict tax relief on pension contributions to the basic rate only, it is unlikely this measure will be reversed, and will affect many GPs. The position based on level of income can be summarised as follows:

Total taxable income less than £150,000 pa - No restriction of higher rate relief

Total taxable income between £150,000 and £180,000 - Tax relief restricted on sliding scale

between 50% and 20%

Total taxable income over £180,000 pa - Tax relief is at 20% only

Relief will be restricted by applying the High Income Excess Relief Charge (HIERC) and the example below shows how it will work for a GP who falls in the £150,000 to £180,000 band:

Dr James has taxable income of £170,000 and has paid superannuation contributions (employee and employer) of £30,000. At gross income of £170,000 he is entitled to 30% relief and his HIERC will be:

$$\begin{aligned} £20,000 \times (50\% \text{ less } 30\%) &= 20\% \\ &= £4,000 \\ £10,000 \times (40\% \text{ less } 30\%) &= 10\% \\ &= \underline{£1,000} \\ &= £5,000 \end{aligned}$$

As a consequence of the 2011/2012 changes measures were also introduced in the 2009 Finance Act to prevent individuals affected by the withdrawal of higher rate relief making extra one off pension contributions before 6 April 2011. These provide for a tax charge to be made if the irregular pension contributions in the years ended 5 April 2010 and

2011 exceed £20,000 per annum. For GPs paying only superannuation, these rules are of limited application unless the GP is one who moves between the different bands for employee contributions but will affect those who have other pension arrangements outside the NHS Pension Scheme. The position is complicated because the £20,000 limit has to be measured against the pension input for the year, in other words the increase in the value of the NHS pension fund. As this figure cannot be ascertained until the annual certificate of pensionable earnings is completed, and that in turn cannot be done until the GP has completed his tax return, how do you calculate if a tax charge arises under these provisions? Our professional body, AISMA, and the BMA are taking this up with HM Revenue and Customs at the moment; based on past experience do not expect a quick answer but we will provide more details as soon as possible.

David Carr, director of our financial service company EC (Financial Services) Limited has a good working knowledge of the NHS pension scheme and the restrictions on tax relief and is always please do deal with queries.



OTHER MATTERS IN BRIEF

Seniority – some practices are experiencing claw backs of seniority payments made several years earlier, which can create problems where the doctor concerned has subsequently retired. As the original payment was made to the practice, but is GP specific, the legal position on recovery is not clear, so for the avoidance of doubt it is important this matter is covered in the partnership agreement.

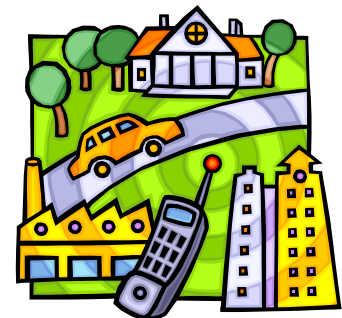
Salaried GPs – the view has been expressed in some parts of the professional press recently that salaried GPs cost more than equity partners. Whilst there may be issues that are difficult to quantify in financial terms if retiring equity partners are replaced by salaried GPs, such as the difficulty of succession within the practice and commitment, in our view a

salaried GP earning around £75,000 per annum should produce a contribution to profit of at least £15,000 per annum after allowing for on costs such as employers national insurance, employers superannuation and medical defence cover.

Abatement of personal allowances – with effect from 6 April 2010 individuals with income of more than £100,000 will suffer an abatement of their personal allowance, on the basis of £1 of allowance for every £2 of income. Based on the current personal allowance of £6,475 this means that income between £100,000 and £112,950 will suffer an effective tax rate of 60% so it pays to avoid falling within that band if at all possible. It remains to be seen whether the abatement will continue after 22 June with the coalition government's proposal to increase the level of the personal allowance to £10,000.

SALY is no good – with the pressure on to collect more tax, HMRC are taking a much more aggressive approach with adjustments found on tax enquiries and will frequently

seek to extrapolate these back four or six years. Therefore, record keeping on items such as the private proportion of motor expenses must stand up to scrutiny and the SALY (Same As Last Year) approach will not do. Ideally mileage logs should be kept for the entire year, but if this is not practical for a minimum of two representative months to establish an accurate business percentage.



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 on.



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