



DOCTORS NEWSLETTER

Welcome to our first Doctors Newsletter of 2009 which highlights some of the current tax issues and associated matters affecting GP's.

HMRC ENQUIRIES

One of the consequences of the current economic climate in our view will be an increase in HM Revenue and Customs enquiries into business accounts. The pressure to raise tax revenue is also likely to be manifested in a more aggressive attitude by the Revenue when adjustments to profits are identified. The Revenue's current approach is to seek extra tax for the previous five years also, their argument being that the same understatement would also have arisen in those years. Finally, a more aggressive approach is being taken with regard to penalties where tax has been underpaid.

As far as GPs are concerned, personal expenses are a particular area of concern. We highlight below two specific areas that the Revenue is focusing on, but record keeping is also very important. Our experience on enquiries into the accounts of other businesses indicates that a tax deduction will be refused if it

cannot be supported by an invoice or other third party paperwork. It is also important that business records are retained for the required six year period, particularly now HMRC are frequently looking back into earlier years. As well as information to support expense claims, GPs should also retain all details relating to non practice entries on their tax returns for the six year period.

Use of home

HMRC have recently given some guidance on claims for use of home as office. A claim for a proportion of the running expenses of the house, calculated by reference to the number of rooms will only be accepted if part of the house is used exclusively for business purposes. This then has capital gains implications on a subsequent sale, with the part of the gain attributed to the exclusive business use being taxed, although, following the change from 6 April 2008 onwards, that will be at a rate of 18% rather than the 40% which could have applied before then.

Where there are no rooms with exclusive business use (to avoid the capital gains tax liability set

MARCH 2009

out above) a claim for a specific proportion based purely on the number of rooms will no longer be allowed. For example, suppose a GP has a house with seven rooms, of which one, is used partly for practice work such as writing up patient notes, study etc. The claim here would be based on one seventh of the running costs of the house, but reduced to reflect the actual use of the room for practice work typically based on actual hours as a fraction of the total available hours per week.

Where use of home claims are based on a fixed amount per week, the Revenue have indicated that the amount per week must be capable of being justified on the basis of the extra costs incurred over and above the normal running costs of the house as a result of practice work being done at home. The maximum amount HMRC will accept without enquiring further is £3 per week.

With these new guidelines, which take effect from 6 April 2008 onwards, GPs need to consider carefully the amount they wish to claim for use of home in their expense claims for the year ended 31 March 2009.

Motor expenses

An area where HMRC are often able to collect tax during an enquiry is when the taxpayer cannot substantiate the split between business and private motoring. Increasingly, the Revenue are asking for a complete mileage log for the tax year in question, and although this obviously involves a good deal of extra record keeping we would recommend that this is maintained if at all possible. If a full mileage log cannot be kept, the minimum requirement must be a record of business miles for a representative month in each tax year. The problem with tax enquiries is that they typically relate to a period at least two years earlier, and it is difficult to persuade HMRC that what happened then is the same as what happens now, if a mileage log has not been maintained for the earlier period.



ESTATE PLANNING

In the present economic climate, estate planning is probably the last thing on many peoples' minds. After all, assets passed down to the next generation now will not be available to utilise in one's retirement, either to draw down or to provide a larger capital base if investment returns remain at their current depressed level. However, for those able to take a longer term view and identify assets that are surplus to requirements now may represent a good time for some inheritance tax planning.

Gifts down to the next generation of assets other than cash will typically have capital gains as well as inheritance tax implications. With the current fall in the value of assets such as property and quoted shares this may well be less of an issue; in addition, when the recovery does come, the future growth in the value of the gifted asset will take place outside the donor's estate.

PENSIONS DEADLINE

A quick reminder that the deadline for opting for protection to prevent a substantial tax charge for those who anticipate their pensions will exceed the lifetime allowance when they begin to draw them expires on 5 April 2009. This is particularly relevant to GPs expecting to begin drawing their pensions in the next five years, but anyone who is concerned should consult their financial adviser urgently. For anyone who is concerned about this area and does not currently have a financial adviser should speak to David Carr, who runs our financial services company EC (Financial Services) Limited.

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. For advice on any queries arising from the topics covered above please take specialist advice.

If you require further advice on any of the topics covered in this newsletter please contact Debbie Wakefield, Francis Whitbread or Alison Wagerfield.



Registered Auditors and Chartered Tax Advisers

Edmund Carr LLP, 146 New London Road, Chelmsford, Essex, CM2 0AW, UK

+44 0 1245 261818 www.EdmundCarr.com

Malcolm C Hamlyn David C Drain Eric D Williams Stewart P Martin
Francis V Whitbread Ray Crace Debbie J Wakefield FCCA

Registered Office: 146 New London Road, Chelmsford, Essex, CM2 0AW
Registered in England & Wales - Partnership Number OC333955

Regulated by The Institute of Chartered Accountants in England & Wales to carry out audit work and a range of investment business activities. Registered with The Chartered Institute of Taxation as a firm of Chartered Tax Advisers.

