



DOCTORS NEWSLETTER

DECEMBER 2009

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

Bidding for new income streams

With the lack of increase in core income that is likely to occur over the next few years, practices need to look for new income streams in order to maintain partner profit levels. This may involve projects utilising particular skills within the practice, but with the increasing number of services being contracted out by the NHS, practices are also bidding for new work.

With the stagnation of existing income streams, bidding for new work seems an obvious thing to do, but there are a number of points that need to be considered at the start, as follows:

- The hidden cost of bidding needs to be identified; for example partners may be distracted from their existing work load and more locum costs will be incurred as a consequence.
- The financial forecasts for the project need to be done at the

start to make sure it is viable.

- Be aware of the opposition; large commercial organisations are also bidding for projects and based on current information are likely to beat local GPs. This suggests finance rather than quality of service is the main factor PCTs look at in awarding contracts and this is relevant in preparing the financial forecasts referred to above.

We have a good deal of experience in helping clients prepare financial forecasts and as well as actually "crunching the figures" feel we offer an independent and commercial view on the viability of what is being proposed. We have also assisted our own GP practices with bids they have submitted and one thing that has emerged is that this is a new process to PCTs, which gives problems in obtaining accurate information on income streams in order to produce forecasts.

Practices who do bid for new contracts in our view need to be prepared to be disappointed but also persistent, because there is no doubt that the experience gained in a failed bid will prove valuable on a subsequent occasion.



The new NHS Pension rules

David Carr, director of EC (Financial Services) Limited, our independent financial advisory company, summarises the main changes:

- *Additional lump sum available by commutation*
- *Standardised six month short term survivors pension*
- *Dependants' pension to age 23*
- *Widowers' pension no longer ceases on remarriage (for post 1.4.08 retirees)*
- *Survivors pension now payable to non-legal partners*
- *Step down available*
- *Abatement impact reduced ill health retirement calculation changed*

Conversion from the existing scheme to the new one is only likely to be beneficial if the retirement age is after 63, but each case needs to be reviewed and I will be pleased to advise on this or any other queries you have on the above changes.



Incorporation of the practice – will it save tax?

The announcement of the 50% income tax rate for taxable income in excess of £150,000 for individuals from 6 April 2010 onwards has again focused attention on whether GPs should operate their practice through limited companies in order to reduce the partners' income tax liabilities. This of course presupposes that the PCT is agreeable to the practice holding its contract via a limited company, and some banks dislike more complicated structures, but assuming those hurdles can be jumped, is a limited company a way to save income tax?

The perceived reason for using a limited company is that corporation tax rates are much lower than income tax rates. However, these rates are only beneficial if the company has substantial amounts of profit that can be taxed at these rates and then subsequently extracted without incurring further income tax liabilities for the directors/shareholders (in the case of a GP practice the former partners). Our experience of GPs is that almost without exception they want to

receive their share of the practice's net profits as soon as possible. In a company scenario this equates with withdrawing the entire profit as either salary or dividend or a combination of the two.

If the entire profit is withdrawn as salary, the corporation tax rates above are irrelevant because the salary is deducted in working out the company's taxable profit. More typically, the majority of the profits will be withdrawn as dividend, to achieve a national insurance saving, but we would always encourage owner directors to draw a realistic salary to avoid unnecessary attention from HM Revenue and Customs. The table below shows the net income for an individual receiving annual income of £125,000 either on a self employed basis or through a limited company as a combination of salary and dividend:

Self employed	£81,081
Company:	
• All drawn as salary	£72,075
• Salary £62,500 balance as dividends	£75,497
• Salary £12,000 balance as dividends	£83,011

Adopting a higher risk strategy of taking the majority of the profit as dividend will produce a small saving but this will be eroded to a large extent by the extra compliance costs of operating via a limited company.

Our view is that a GP practice or any other business should not normally be incorporated purely for tax reasons; there needs to be a commercial motive behind the decision. GPs and other healthcare professionals have medical defence insurance so should not need the protection of limited liability; indeed there is a body of opinion that thinks a healthcare professional who operates via a limited company is giving a potential litigator an extra target!



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.

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