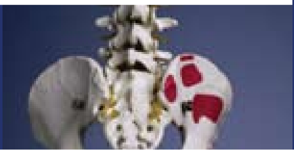
Jo Fursman

Andrew Spear

AUTUMN 2009 ISSUE 2

GP**Money** Matters



Tax changes for 2010/2011

From 5 April 2010, there will be a higher rate of tax of 50%. This is for partners where their total taxable income is above £150,000.

Even if profits in the partnership accounts show £160,000 per partner, it is unlikely that the partners will fall into this new tax bracket as it is the taxable profits and not the accounts profits which is the crucial figure.

From the accounts profits we have to deduct the employees superannuation contributions, the partners personal expenses and capital allowances and there are also a number of other adjustments.

There is also now very limited scope for paying personal pension contributions to reduce out of the 50% tax bracket as there are now new rules which may limit tax relief for high earners to basic rate tax relief. Existing regular contributions still get full tax relief and any non regular contributions from 22 April 2009 up to a new annual allowance of £20,000 will still get full relief (so long as the regular contributions plus the new amounts are not more than £20,000). You should consult your accountant or independent financial advisor to check whether your contributions will qualify for full tax relief.

The personal allowance which is the amount an individual can earn without paying tax is being withdrawn from 6 April 2010 for higher earners. So earning above £100,000 per annum will mean an effective tax rate of 60% between £100,000 and £112,950 reducing again to 40% for any earnings above £112,950.

Both these changes will affect tax payments being made on 31 January 2012.

Furnished holiday lettings rule changes

As a result of the 2009 budget announcements made by the Chancellor, there will be significant tax changes with regard to furnished holiday lettings from the 6 April 2010.

At present, furnished holiday lettings are treated as trading income and, therefore, any losses created can be offset against other income earned in the year effectively creating 40% tax relief on the furnished holiday letting losses.

However, as income from furnished holiday accommodation owned outside of the UK, cannot currently qualify for this treatment, HMRC have decided with effect from the 6 April 2010 that the tax treatment of furnished holiday lettings in the UK will change, meaning that any losses created will only be able to be offset against any other property income in that tax year or to be carried forward to offset against future profits from property.

Therefore, from 6 April 2010, losses created from furnished holiday lettings accommodation will not be able to be offset against other income.

There may also be some scope to now claim tax relief on foreign holiday lettings losses for the years ended 5 April 2007, 5 April 2008 and 5 April 2009.

Introducing Lentells Medical Services Division

Managed jointly by Andrew Spear FCCA and Jo Fursman FCCA, this specialist division currently deals with more than 90 medical practices across South West England, as well as a range of consultants, nursing homes, dentists and complementary practitioners. Our service range encompasses all financial support services from bookkeeping and PAYE to preparation of Accounts and Tax planning.

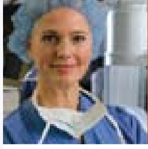
Our experienced team of professionals have in depth knowledge of the medical sector and can provide advice on VAT, pensions, practice property issues, partnership agreements, all financial impacts of the new GMS contract, PMS funding and contracts and practice based commissioning.

Andrew Spear is a recognised expert in medical practitioner services and lectures widely on financial issues for GP practices.

MMM

totally independent

CHARTERED LENTELLS ACCOUNTANTS



Seniority

Where an individuals net NHS profits are less than the two thirds of the national whole time equivalent NHS earnings – only 60% of the seniority will be paid. If earnings are below one third then no seniority will be paid.

The department of health issues an estimate of national whole time equivalent NHS earnings to PCT's, and this forms the basis of what level seniority is paid.

The national average NHS earnings figures for 2004/2005 and 2005/2006 have recently been published. These relate to GMS practices only. PMS contracts are not included as these are locally agreed between PCTs and practices and it will be up to the individual PCT's to consider what factor might be applied for 2004/5 and 2005/6.

Effectively the threshold for receiving the full seniority payment has increased for 2004/2005 from £50,000 to £54,082 and for 2005/2006 from £53,960 to £60,749.

Financial Year	Final Seniority Factor
2004/05	£81,123
2005/06	£91,123
Financial Year	**Interim Seniority amount**
2004/05	£75,000
2005/06	£80,940

Where a partner has been paid the full unrestricted seniority for those years, but based on these revised figures now only qualify for 60% of the seniority allowance, the PCT will reclaim the overpaid money from the practice.

This is likely to affect a number of part time partners and also full time partners in low earning practices.

It is the superannuable profits of the individual partners which form the basis of the calculations, not the actual profits. So it excludes any non superannuable income such as insurance medicals and cremation fees. It also excludes any hospital income - so clinical assistant posts and bed fund appointment. It is also after deducting partners personal expenses and interest on a personal loan for partnership capital.

The most significant factor however is that you have to exclude the seniority payment when comparing to the national average figures.

So when a partner has superannuable profits of say £63,000 for 2005/2006, it appears that they qualify for the full seniority allowance. But once you exclude the seniority which was paid to them in that year of say £4,000, the figure reduces to £59,000 and therefore they will not qualify for the full allowance.

Often partners reduce their commitment in the run up to retirement -and these are the individuals who are likely to be worst affected as they will have large seniority payments. Also, if they have now retired from practices and no provision was made for the claw back of seniority, it will be up to the practice to chase for a refund of this money from the retired partner.

With a GP who has 47 years of seniority then the maximum seniority payment is £13,900 per annum. If they had been paid at the full rate and now face a claw back to the restricted rate of 60% - then the reclaim will be £5,560 for each year they have been overpaid.

It may also mean that some partners who were underpaid seniority in the early years may receive some payment of arrears.

Connecting for Health will be issuing software to PCT's to enable them to calculate which GP's have been affected - and at that point, any practices should contact their accountants to check the figures where it appears that money will be clawed back from the practice.

VAT

The VAT rate fell to 15% from 1 December 2008. This has been of some benefit for the vast majority of medical practices as it has meant a reduction in overhead costs.

If you are planning major expenditure, it may be worth incurring this before 1 January 2010 in order to benefit from the current lower VAT rate before this increases again to 17.5%.

It may also be worthwhile incurring expenditure early on certain items in order to benefit from the lower VAT rate such as stationery supplies and accountancy fees.

Childcare vouchers

You may be aware as an employer that you can offer childcare vouchers to your staff as a salary sacrifice. A deduction is made from the employee prior to calculating tax and the individual therefore saves tax and national insurance. You then pay the amount to the company providing vouchers.

However, are you aware of the implications if the employee then takes maternity leave for a second child?

Law states that deductions are not allowed to be made from statutory maternity pay. Therefore, you will continue to be obliged to provide the child care vouchers for the first child but you will not be able to recover this from the individual as you can't deduct this from their salary.

If you pay additional maternity pay then deductions can be made from this but not the statutory amount. The end result is that you are left incurring the cost of an employee's child care even though they are off on maternity leave. The same would also apply to statutory sick pay.

You should therefore consider carefully if you wish to continue offering this benefit to your staff as it could end up costing you significantly if they have future maternity leave.

Some individuals actually discover that they are worse off by you offering this anyway as it reduces the amount of child tax credit they can claim as they are not directly paying for child care.

It seems that this is not such an attractive incentive as first thought.

Do you own a second home?

If you own a second home that is not commercially rented out or purchased for profit purposes then there is a simple way to reduce your tax liability when you come to sell this property.

Each individual can only have one principal private residence at any time. If you own a second property, when you sell this you will be liable to capital gains tax on any profit currently taxed at 18%.

However, you can elect for either property to be your principle private residence. By electing for your second property to be your principle private residence for a short period then the last three years of ownership automatically attract principal private residence relief.

As a result, if you have owned the property for say 10 years, then you will only have to pay tax on 7/10ths of the gain rather than the whole gain. You will lose a very small proportion of principle private residence relief on your main home but this is minimal compared to the saving you will make on the second property.

Introducing Medical Money Management

Independent, personal, experienced and above all professional

The origins of the Medical Money Management Group date back to 1971 when the firm was established to provide specialised advice to the Medical and Dental Professions.

Since then, we have developed into a national Partnership recognised as one of the leading independent financial advisers for Doctors and Dentists. Our services have been extended to a wider audience of professions and individuals who demand and appreciate independent financial advice.

The main aim of Medical Money Management is to help the members of the professions organise their financial affairs, create and protect capital and achieve and maintain their desired life-style. We achieve this for our clients by providing a bespoke personal advisory service where our service costs are covered on a commission or fee basis to suit your needs.

We have eight offices throughout the UK providing these services, which cover all areas of independent financial advice and general insurance broking, including many specialised products for the professions that we look after.

Our Partners and Associates have over 400 years collective experience between them and as we are not tied to any one company our recommendations can be as simple or diverse as your requirements.

Our total independence allows us to choose a suitable product according to your situation.

Having first established a full and in-depth understanding of your financial affairs we can then recommend and implement an agreed action plan. This is kept up to date and reviewed at least annually, as it is essential to provide you with ongoing support and assistance based upon our detailed knowledge of your personal needs.

www.mmmnet.co.uk

ISAs and Investing

The April 2009 Budget announced some significant changes to both ISA allowances and Capital Gains Tax which will significantly benefit savers and investors in current and future tax years. For the 2009/2010 tax year the upper limit for cash ISA investment is £3,600 (from October 2009 the limit increases to £5,100 if you are aged 50 and over). This increase in allowance for the 50s and over is also relevant to Stocks and Shares ISA investments. With effect from the tax year 2010/2011 the new ISA allowance will be £10,200 for all, not just for those 50 and over.

In addition to the increase in ISA allowances, we have also seen a change in the Capital Gains Tax (CGT) regime, aimed at simplification for everyone. Out went indexation, taper relief and marginal tax rates and in came a flat rate of 18%. Most investors, particularly higher rate taxpayers, probably now pay less CGT, although some business owners have experienced a rise in liability from their previous 10% rate.

Individuals often leave their ISA decisions until the last minute, driven by the 5th April deadline. However this year you could make a 'New Tax Year Resolution' and instead be one of the first to make a decision. Your ISA allowance for 2009/2010 is £7,200 (higher for the 50s and over as explained previously) and can be spread across cash and Stocks and Shares or placed in Stocks and Shares wholly. If you prefer Stocks and Shares but are worried about the ups and downs of the market, you could consider drip feeding your investment over the tax year by using a regular savings plan.

In the world of investment, timing is everything, but despite claims to the contrary no-one can second guess the market. However by saving regularly, investors can benefit from "Pound Cost Averaging". Regular savings mitigate the risk of buying all your investment at a single price and instead smaller regular sums are invested at different times and therefore potentially varying prices. In a rising market, regular savings will underperform a lump sum as the later investments will miss out on the early growth. However, in a variable or falling market later investments would buy in at lower alternating prices and therefore offer more growth as the market returns to higher levels. It is important to remember that prices can fall as well as rise.

Alternatives to Deposit Accounts

The changes to ISA allowances and Capital Gains Tax offer huge opportunities for efficient growth in a varying investment world. With cash deposits offering low returns, alternative products such as deposit based structured products can offer excellent opportunities for cash ISA funds and monies held in deposit accounts, for those seeking potentially higher returns. There are currently products on the market offering up to 7.5% gross return per annum (subject to certain conditions), guaranteed capital protection and participation in the Financial Services Compensation Scheme, they could be an excellent alternative for cash based investors.

Investing in Bonds

With the recent reduction in credit available on the wider markets, Corporate Bond funds also offer investors great investment opportunities. Corporate Bonds are loans issued by companies and funded by investors. In exchange for giving them your capital, companies make pre-agreed payments of interest back to you at regular intervals until the capital is repaid at a future date. This makes them particularly attractive if you wish to supplement existing income.

Exchange Traded Funds

A more recent addition to the investment world are Exchange Traded Funds (ETFs). Being relatively new to the investment market, they have not commonly been used by investors, however they are now becoming more popular and offer additional diversification to investors. Like shares, ETFs are listed on the Stock Market but they track an index rather than any individual company. This index could be something straightforward like the FTSE All Share or it could be more complicated or sector specific such as a Commodities Index. Their main benefit is that they have low expense ratios and minimum investment levels in line with individual share investments. However, they can also prove a very effective way to gain access to obscure investments such as forestry or sugar, should you want to add "spice" to a wider portfolio. These investments are only considered suitable for those with a higher than average attitude to investment risk and independent financial advice should be sought before investing in these types of funds.

Tax Treatment

With the continuing likelihood of low interest rates and investors seeking alternative investment options for funds, along with the changes in both ISA allowances and Capital Gains Tax charges, it is increasingly more important to review any existing investments you hold to ensure that they are both meeting your investment objectives and receiving the most favourable tax position in the prevailing tax regime. It must be remembered that it is not only the underlying performance of the investment which determines the overall return you may achieve but, in addition to this, the tax treatment of any investment can have a significant effect on the overall performance of any cash or investment portfolio.

At Medical Money Management we normally review all our investments on a regular basis to ensure they are achieving the desired growth matched to the underlying risk, taking into account the current tax regimes and tax allowances available.

NHS Pension Choice which Path will I Take?

What is Your NHS Pensions Choice?

Your NHS Pension Choice is an exercise to give all eligible members of the NHS Pension Scheme a one-off option to transfer all of their membership from the 1995 Section into the 2008 Section if they wish.

Eligible members will each receive a Choice Pack which includes an Explanatory Booklet, a Choice Statement (showing a comparison of benefits in the 1995 and 2008 Section) and a DVD.

This is a very important decision and will need very careful consideration and professional advice before returning your form. All members will need to decide whether to remain in the 1995 Section or transfer to the 2008 Section. If you choose to transfer to the 2008 Section you will join that section from 1 April 2008 and the membership you have built up in the 1995 Section to date will transfer to the 2008 Section as well. You can not choose to transfer to the 2008 Section without moving your 1995 Section membership.

Is There a Deadline?

For members of the 1995 Section you will need to return your form by 1 August 2010 if you wish to transfer across to the 2008 Section. You will only have one choice and you can not reverse this decision in the future.

What Information Will I Receive?

The pack sent out to you will contain the following:
NHS Pension Choice Guide
NHS Pension Choice DVD
Personal Benefit Statement for 60 and 65 retirement age
NHS Pension Choices Form

What Else Should I Do?

As this decision will affect the whole of your NHS Pension and can not be reversed you should seek professional advice before making any commitment. The NHS Pension scheme is a very complex arrangement, particularly for General Practitioner members of the scheme. Even if you plan to retire beyond age 60 the availability to take pension benefits and continue to work along with maintaining a more flexible option may be a more appropriate route.

As Independent Advisers to Medical Professionals, Medical Money Management are able to advise you on the options available to you. This will ensure you make an informed decision on the most suitable option for you. Remember, you can not reverse any decision you make in the future. It is therefore important to get it right.

Maintaining Personal Allowances If Your Taxable Income is Over £100,000

From April 2010 the personal allowance will be reduced by £1 for every £2 of adjusted net income over £100,000. For most people, adjusted net income refers to net income minus gross contributions to pensions and gross gift aid payments.

With the change in the rules surrounding the personal allowance it could be possible to secure effective tax relief of up to 60% on pension contributions. For example, let's look at someone taking an income of £110,000 and the effect the £10,000 above £100,000 has on their personal allowance:

£10,000 is taxed at 40% = £4,000

£5,000 personal allowance is lost (on a £1 for every £2 basis, i.e. £10,000 results in £5,000 loss of allowance), meaning taxable income increases by £5,000

Then £5,000 taxable income is taxed at 40% = £2,000

The £10,000 therefore results in a tax bill of £6,000 or in other words a 60% tax bill

In this example, by contributing £10,000 into a pension, you will effectively be getting 60% tax relief because your tax bill reduces by £6,000

The same calculation based on £120,000 income and a £20,000 pension contribution would give you effectively 53% tax relief.

£20,000 is taxed at 40% = £8,000

£6,475 personal allowance is lost (based on 2009/10 – on a £1 for every £2 basis, £20,000 extra income eliminates the whole allowance.

The £6,475 allowance lost is taxed at 40% = £2,590

Then £20,000 results in a tax bill of £10,590, or in other words an effective 53% tax bill and so 53% tax relief on the pension contribution.

It is clear from the above calculations the effective tax relief will vary dependant on net taxable incomes. Medical Money Management are able to advise you individually on your own personal circumstances and the effective rate of tax relief available to you.

HOW TO CONTACT US

Lentells Medical Services Division
Catford House, 26 Fore Street, Chard, Somerset TA20 1PT
Tel: 01460 64441
Email: chard@lentells.co.uk
Web: www.lentells.co.uk

Medical Money Management
Estuary House, Peninsula Park, Rydon Lane, Exeter EX2 7XE
Tel: 01392 354760
Email: paul.stone@mmmnet.co.uk