

Tax and Pensions - a Seminar for GPs and Dentists



Main Income Tax Changes

- Reduction of the tax-free personal income tax allowance from 6 April 2010
- Introduction of a new higher rate 50% income tax band from 6 April 2010
- Restriction on tax relief for pension contributions from 6 April 2011 (*anti-avoidance provisions already in effect*)



Main NIC Changes

- Additional ½% NIC employer contributions on all employees from 6 April 2011
- Additional ½% on your profits before superannuation, from 6 April 2011



Reduction of Personal Allowance (PA)

- Currently everyone has the benefit of a tax-free PA for income tax – 2009/10 £6,475
- From 6 April 2010 this will be reduced for those earning above £100,000
- For every £2 of income above £100,000 the PA will fall by £1
- E.g. income of £110,000 : therefore £10,000/2 = £5,000 reduction in PA
- Based on the current allowance those earning above £112,950 will completely lose the PA
- Effective marginal tax rate of 60% between £100,000 and £112,950



Effect of PA Reduction

Income <small>(not dividends)</small>	Tax Liability	
	2009/10	2010/11
£100,000	£29,930	£29,930
£113,000	<u>£35,130</u>	<u>£37,720</u>
Additional tax	<u>£5,200</u>	<u>£7,790</u>
Effective Tax Rate	40%	60%



Reduction of Personal Allowance

TAXABLE INCOME (£)	PERSONAL ALLOWANCE (£)	TAX INCREASE (£)
100,000	6,475	n/a
110,000	1,475	2,000
120,000	0	2,590



Extra NICs

- For 'typical' surgery with £325k wages costs and one salaried practitioner – extra cost 0.5% = £1,625 p.a.
- And then on your own profits, for the average practitioner a further NIC hit of £500 p.a.



Is It Worth Working Harder?

Current Earnings		100,000
Opportunity to earn extra e.g. out of hours income – say		15,000
Tax and NIC on 15,000:		
	12,950 @ 60%	7,770
	2,050 @ 40%	820
	15,000 @ 1.5%	225
Superannuation @ 14%		2,100
Superannuation @ 8.5%		1,275
Net income available to spend from £15,000 earned		
	GP:	2,810 (18.7%)
	Dentist:	6,185 (41.2%)



Darling's Super Tax

- From 6 April 2010 the top rate of income tax will increase to 50% for those earning above £150,000
- Tax on dividends falling in the new band increases to 42.5% (*effective rate of 36.11% - currently only 25%*)



Dividends – more than 10% increase?

	2009/10	2010/11
Net Dividend	10,000	10,000
Add : Tax Credit (10,000 x 100/90)	1,111	1,111
Gross Dividend	11,111	11,111
Tax on Gross Dividend at 37.5% / 47.5%	3,611	4,777
Less : Tax Credit (as above)	1,111	1,111
Tax Payable	2,500	3,611
Effective Tax Rate	25%	36.11%
	Increase of 11.11%	



When This May Hit Your Pockets

- Assuming you do not mitigate
- An “average” earner will say have a tax bill in January 2012 £3,885 higher than January 2011
- An earner at say £175,000 p.a. will have a tax bill in January 2012 £7,635 higher than January 2011
- This ignores increase in NICs



Advance Income

- Recognition – use of estimates

Example

Total taxable income in 2010/11 of £200,000 will mean £50,000 falls into the 50% band

Advancing £50,000 to 2009/10 will reduce the rate to 40% **saving £5,000** (10%)



Delay Expenditure

- Consider the timing of tax relievble expenditure
 - refurbishment of surgery
 - Bonuses for staff (eg practice manager)

Example

Deferring £50,000 of 2009/10 expenditure to 2010/11 will increase the rate of tax relief to 50% **saving £5,000** (10%)



Utilising Spouse/Civil Partner

- Equalising income
 - Transferring investments
 - Spouse's salary

Example

- Your spouse has income of £50,000
- You have taxable earnings of £150,000
- You also have income from investments of £10,000

Tax saving on transfer of investment income to spouse = £1,000 per annum



Partnership Ratios

- More radical planning
- Manipulation of profit sharing ratios
 - Professional
 - Property
- Superannuation dynamisation
- Seniority
- Other tax issues



Pension Planning

- Increase pension contributions to bring taxable income down to below the £100,000 (or £150,000) higher rate threshold

Example

Taxable income of £113,000

Make a pension contribution £13,000

Effect is to retain full personal allowance and save income tax of £7,800 (60%) in total



Gift Aid

- Works in the same way as pension planning
- Save excess tax in the margin – though you still lose the 40% to the charity!



Change Year-end?

- Suggestion that this will save tax
- Still taxed on full 12 months in 2010/11
- 'Overlap' relief reduces the tax savings
- Tax payment accelerated
- Consider special circumstances



Maximise Deductions

- Capital allowances
 - Environmental Allowances (ECA)
 - Annual Investment Allowance (AIA)
 - First Year allowances (FYA)
 - Timing
- Interest relief



Interest Example

- Capital/current account balances £50K
- Mortgage on home £100K
- Withdraw £50K from practice Day 1 – use to repay mortgage @ say rate 3%
- Borrow £50K business loan Day 7 rate say 4%
- Inject into capital account – receive 60% relief so effective rate 1.6%
- And may reduce profits below £150K for pension purposes



ISAs etc

- Create tax free income
 - ISAs
 - Premium bonds
 - National Savings Certificates
 - EIS Investments
 - VCT Investments



Using a Company?

Personal tax rates 50% above £150,000
Company tax rate 22% up to £300,000

Beware:-

- Tax consequences of transfer of income stream to company
- Further taxation on extraction of profits from company
- Effect on NHS superannuation scheme means use for non-NHS income only
- Future changes in legislation



Using a Company?

Example

- Partnership profits include £50,000 income taxable at highest rate
- Income tax at 50% plus NIC at 1%
alternatively
- Sell goodwill to company at effective tax rate of 10% and draw down value income tax free; suffer 22% CT
- Subsequent years - effective rate of tax
 - CT at 22% on profits plus
 - 36.11% dividend
 - Therefore effective rate on the balance = 50.2%



Using a Company?

So after initial benefit fairly neutral – unless:

- Use spouse shareholders for “income splitting” (i.e. tax-free dividends to basic rate threshold, for 22% effective overall rate)
- Store up profits until lower rates available (i.e. 22% corporation tax + 20% basic rate on remainder)
- Or release each 2-5 years to only hit 50% or 60% rates periodically
- Or liquidate personal company later for 10% capital gains (i.e. 32% effective overall rate)



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