JOHNSTON CARMICHAEL

Health Check

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Information and advice on the issues facing medical and healthcare businesses.

Welcome to Health Check - Foreword by Louise Peters

Louise Peters
General Practice Director

At Johnston Carmichael, we are growing all the time and with 11 offices across Scotland, we are well placed to advise medical and healthcare practices up and down the country.

Our team of sector specialists understand the challenges and opportunities facing healthcare professionals who are running their own practices. In our newsletter we cover some key changes coming into force which could directly affect you and your business, as well as identifying changes that could help lower costs and increase effectiveness.

If you would like to understand more about how any of the topics affect you, please contact me or your usual Johnston Carmichael adviser.

Pensions - Lifetime Allowance and Annual Allowance

On 6th April 2016 the Lifetime Allowance (LTA), that limits the tax relieved pension funds that an individual can build up over their lifetime, will fall from £1.25m to £1m affecting many medical professionals and their retirement plans.

The LTA was introduced in April 2006 and applies to all pension savings that an individual has, excluding the State Pension. For final salary pension schemes, such as the NHS scheme, the pension benefits are tested against the LTA limit by multiplying the pension income by 20 and adding any lump sum. The pension income used for the calculation is the actual pension that will be received after any exchange of pension for lump sum and the application of any early retirement factors or other deductions that may apply depending on the member's circumstances.

The values of any money purchase pension arrangements such as stakeholder or personal pensions, or Additional Voluntary Contribution (AVC) Schemes, also have to be taken into account when working out any potential exposure to the LTA. This is especially important where contributions are still being paid into such arrangements.

When the value of pension benefits exceeds the LTA, the excess benefits are subject to a tax charge. This charge will be 55% where the excess is taken as a lump sum or 25% if it is taken as an income. In the NHS scheme the tax charge on any income is normally deducted from the annual pension income by dividing the LTA charge by 20 and reducing the pension by this amount. For example, a tax charge of £75,000 would result in a pension reduction of £3,750 per annum.

Someone with an NHS pension of c.£43,500 per annum and lump sum of £130,500 or more will therefore face a potential LTA charge from 6 April 2016 since the value of their pension benefits for LTA purposes would be £1,000,500 (20 x £43,500 = £870,000 + £130,500 lump sum). Any other pension arrangements that they have in addition to this are therefore immediately exposed to a potential LTA charge when a benefit crystallisation event (BCE) occurs. BCE's occur when benefits are taken, when the member turns 75, when they die and in certain other situations. In light of this, many members of the NHS scheme have been considering their options for avoiding or minimising the impact of any LTA charges.

The "nuclear option" is to opt out of the NHS scheme entirely and apply for Fixed Protection which protects the LTA at £1.25m for those individuals who have already breached or expect to breach the LTA. This approach is not to be taken lightly as it requires all future pension savings to cease from 5 April 2016 and results in the loss of any death in service lump sum benefit and the tax relief on the future pension contributions that will no longer be made. The potential LTA tax charge savings achieved by opting out therefore have to be set against the loss of these benefits in order to determine whether opting out is actually the best approach.

For others, a combination of applying for Individual Protection 2014 or 2016 and adjusting when and how they take their benefits might be more beneficial. Retiring early with a reduced pension and exchanging pension income for a greater lump sum can reduce the value of NHS pension benefits to an amount below the LTA. Taking 24-hour retirement before 5th April 2016 is another option, which can be used to ensure that benefits are tested against a higher LTA and thus avoid or reduce future potential LTA charges on NHS and other pension benefits.

Given the valuable benefits that the NHS pension scheme offers – secure income, index linking, spouse's pension, death in service life cover – and the different options for influencing the final pension payable, there is much to consider when planning for the revised LTA limit and your eventual retirement. It is therefore important to explore all options and take advice where necessary before making any final decision.

Tapered Annual Allowance

From 6th April 2016, we will see the introduction of the Tapered Annual Allowance. This will only apply to individuals with threshold income of over £110,000. Threshold income is broadly your taxable income, less your NHS pension contributions both (employer and employee) and grossed up private pensions.

If your threshold earnings breach £110,000 then you will be affected if your adjusted income is in excess of £150,000. Adjusted income is broadly your taxable income (from all sources), plus your employers share of your annual pension growth.

If your adjusted income is in excess of £150,000 your Annual Allowance will be tapered down from £40,000 by £1 for every £2 that your adjusted income is over £150,000.

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Auto Enrolment for GP Practices

From staging dates according to workforce size, all employers have a duty to automatically enrol certain workers (depending on their age and salary level) into a qualifying workplace pension scheme. You can find out your staging date by going to The Pensions Regulator website at **www.thepensionsregulator.gov.uk** and entering your PAYE reference.

GP Practices will be required to ensure that all eligible individuals are automatically enrolled into the NHS scheme. However, for staff who may be prevented from joining the NHS Pensions Scheme, an 'alternative qualifying scheme' will need to be provided. For example, staff already in receipt of their NHS Pension who have returned to work, or staff who have opted out of the NHS pension scheme.

Likewise, employers outside the NHS (e.g GP's limited companies set up for non-NHS work) need to comply.

Fines for non-compliance are high and employers need to ensure that they take action on this prior to their staging date. More information for medical practices can be found at:
www.nhsbsa.nhs.uk/pensions/4094.aspx

If you are concerned about meeting all of the regulatory obligations or if you require any further information please get in touch with our JC Wealth team.

Focus on Personal Expenses: Partnerships/Sole Proprietors

Completing the personal expenses claim is an important aspect of a self employed doctors' tax liability. In a nutshell, more expenses equals less tax so it is important that GP's are claiming everything that they are entitled to.

It can be complicated determining what expenses are allowable for tax purposes and whether the cost can be fully or partially claimed. Whilst not exhaustive, here is a summary of some of the expenses that could qualify for tax relief.

Use of home as an office

Where you use a room in your home for undertaking study, writing up notes or performing research, it may be possible to claim tax relief for a proportion of your household expenses.

A claim could be made for a proportion of the actual household running costs on heat and light etc or it might be less onerous to claim a monthly flat rate.

Motor expenses

Where you use your own car for business purposes, it is possible to claim for the cost of business motoring.

A claim for tax relief can be made for the actual business motoring expenses. This requires you to keep receipts for expenditure and record all mileage whether business or personal. It is worth noting that travel from home to your normal 'base' of operations is not allowable. You would also get 'capital allowances' on the actual cost of the car.

There is an easier method of claiming for business travel whereby a flat rate expense can be claimed as following:

Type of Vehicle	Rate per business mile	
	First 10,000 miles	Over 10,000 miles
Car or van	45p per	25p
Motorcycle	24p	24p

The flat rate expense is intended to cover the cost of buying, running and maintaining the vehicle. Where a vehicle is purchased on hire purchase or finance lease, further tax relief may be available for the additional cost of the finance.

Once you have chosen to use a certain method, you must stick with this as long as you use that vehicle for your business. You can only change the method when a new vehicle is acquired.

Where capital allowances have already been claimed in respect of a vehicle, a claim cannot be made for the flat rate expense.

Professional subscriptions

Tax relief may be available for paid professional subscriptions, provided the subscriptions that are paid relate to the duties you undertake in your business and the subscription is required for you to practice. Tax relief may therefore be available for subscriptions such as General Medical Council, British Medical Association, Medical and Dental Defence Union of Scotland etc.

Course fees

The cost of attending training courses to update your expertise would be another cost allowable for tax purposes. The cost of attending a training course intended to give you new expertise or increase your knowledge would not be allowable and particular care should be taken when claiming for the cost of training that brings into existence a recognised qualification.

Loan to invest in your business

Tax relief may also be available for interest paid on a loan applied in acquiring an interest in a partnership or other business or in providing a business with capital or a loan. The relief is given as a deduction in computing an individual's net income of the tax year in which the interest is paid.

The relief covers loans to

- Buy a share in a partnership
- Contribute money to the partnership by way of capital
- Advance money to the partnership

The relief will be restricted if, at any time after applying the borrowed money, the partner recovers any capital from the partnership but does not use it to repay the loan.

Equipment

Equipment purchased which is used in your business may qualify for tax relief.

Wages to spouse

Tax relief may be available for wages paid to a spouse who works in your business. It is vital to ensure that the wage is commensurate with the work undertaken and is paid at a reasonable rate based on their knowledge and experience. Depending on your spouse's other employments and the amount of the wage, you may have to register with HMRC as an employer and report all wages paid at the time they are paid and pay over relevant contributions. Furthermore, advice should also be taken if the spouse has other employment elsewhere.

Communication and literature costs

A claim can be made for the business percentage for use of your mobile phone, landline phone and internet.

The cost of medical journals and books which are required for your work is allowable.

The above expenses are required when preparing the partnership/sole proprietors' tax return so it is important to have this expense information as soon as possible after 5 April each year so that your accountant can get the return prepared on a timely basis and avoid any unnecessary late filing penalties.

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The Challenges of Partnership Succession in GP Practices

In our visits to GP practices we are increasingly finding that many practices have difficulties recruiting new partners. This problem does not look like it will be resolved quickly.

Why is there a problem?

- Not enough GPs are being trained
- Practices in local areas are all competing for the same patients
- More GPs working part time
- More GPs looking to retire early, especially with changes to lifetime allowance and pensions
- Fewer GPs looking for partnership due to not wanting the added responsibility or risk and/or capital pay in being an issue

It is therefore important that your practice is as attractive as possible to potential partners. One small factor can make all the difference to the decision for or against joining a particular practice.

What could be done to improve the situation?

- If the capital buy in is the problem, look to reduce this and think about alternative ways for the GP to buy in. For example:

> Offer a gradual capital build up with reduced drawings for a period of time

> No buy in to property at the beginning with a probationary period prior to pay in

- Look at options for pay outs to leaving partners; can these be delayed?
- Re-financing existing practice loans. This would reduce the pay in required by a new partner. Speak to your bank about possible loans available
- Avoid financial risk by considering forming an LLP (Limited Liability Partnership)
- Consider non GP partners
- Mergers with other practices. More of this happening in the UK with larger 'super' practices being formed which then share the management time and cost
- Consider if the practice actually needs another partner and if other options can be explored. For example: nurse practitioners

How Johnston Carmichael can assist:

- Preparing Partner buy in calculations
- Preparing Partner pay out calculations
- Advice regarding setting up an LLP
- Preparation of cash flow projections to obtain bank funding
- Advice regarding mergers
- Review of partnership agreements

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Landlords pockets hit hard following Budget

The Summer Budget announcements that the wear and tear allowance will be abolished from April 2016, and loan interest relief and finance costs restricted to a flat 20% by April 2020, will impact many landlords and increase their rental profits subject to tax.

Wear and tear allowance abolished

The Chancellor set out his proposal (subject to consultation) that from 6 April 2016, landlords letting out furnished properties will no longer be able to claim the 10% deduction currently afforded to them.

For instance, a landlord with furnished rental income of £7,500 will see his rental profits subject to tax increase by £750 following the loss of the wear and tear allowance. For basic rate taxpayers, this will mean additional tax of £150 and for higher and additional rate taxpayers £300 and £337 respectively.

Going forward, landlords will only be able to deduct the actual costs of replacing furnishings, any improvement element is likely to be disallowed. Landlords currently claiming the wear and tear allowance should consider deferring any proposed spend on replacing furnishings until after 6 April when they will obtain a 100% deduction from profits.

The proposals will see landlords being able to claim the new replacement furniture relief on furnished, part furnished and unfurnished properties, whereas 10% wear and tear allowance was available to furnished properties only (furnished holiday lets will be outside the changes as they receive Capital Allowances).

Relief for finance costs and loans to invest in 'resi' property businesses

The summer Budget announced restrictions to finance costs for landlords and to investors taking out loans to invest in residential property businesses. Tax relief on such interest costs will be restricted to basic rate tax (20%) from 6 April 2020, whereas currently a higher rate and additional rate taxpayer can obtain tax relief of 40% and 45% respectively. The restrictions to finance costs and loans to invest in residential property businesses will be phased in from 2017/18.

The effect of this is that landlords who are higher rate and additional rate taxpayers will see their tax bill increase going forward.

The percentage increase in tax payable each year for a higher rate or additional rate taxpayer is as follows:

Tax Year	Higher Rate	Additional Rate
2017/18	5% tax increase	6.25% tax increase
2018/19	10% tax increase	12.5% tax increase
2019/20	15% tax increase	18.75% tax increase
2020/21	20% tax increase	25% tax increase

As part of the phasing in of the measures, a tax reduction will be given at 20% for amounts not allowable under the new legislation and come 2020/21, relief for such finance and loan interest costs will entirely be given by way of a 20% tax reduction of the interest costs incurred so as to ensure only basic rate relief is available.

Example case study; a higher rate taxpayer has £10,000 of rental income and £5,000 of mortgage interest each year which gives a rental profit of £5,000. Prior to above changes this profit was taxed at 40% so £2,000 of tax payable. Following the above changes, by 2020/21 the tax payable will become £3,000, therefore an increase of £1,000.

Companies are outside of the scope unless it is a Company merely holding residential property as a nominee. Furnished holiday lets are also outside of the scope.

What can landlords do about these changes?

Take advice; consider options before the changes come into force.

- Consider ownership of rental properties to spread increased income around (joint ownership, gift property).
- Delay spend on furnishings until after 6 April if currently on wear and tear basis.
- Review your property portfolio and assess the impact the changes will make on your tax and financial position.
- Consider how you invest into residential property going forward; investment by way of a Company may be an option (however please note that the costs of extracting funds from the Company should be factored in).

Land & Buildings Transaction Tax (LBTT)

The Scottish government have issued draft legislation on 27 January 2016. For those acquiring an additional property in Scotland, from 1 April 2016 an additional LBTT of 3% is to be payable on residential homes over £40,000. The 3% supplement will be applied to the whole purchase price, not just the proportion above £40,000. The supplement will be payable when the buyer owns more than one dwelling (whether in Scotland or another country). The charge applies not only to second homes but to residences that are acquired for letting or as furnished holiday lets and also indirect interest in properties i.e via Trusts (if a liferent beneficiary). Married couples , those in civil partnerships and cohabitants along with their dependent children will be treated for the purposes of LBTT as one economic unit.

Contact

For further information please contact your usual Johnston Carmichael adviser.

Spending too much time doing admin?

Moving your accounting online could be the answer.

The impact of technology on patient care is being seen across the medical sector in a large number of ways. New technology has been changing the way practices handle their accounting administration.

A range of low cost, cloud based, accounting software packages are helping to deliver real efficiencies and savings. Here are five key benefits that could help your practice:

Live bank feeds

Securely connect your bank account direct to your accounting software – this way your accounting software is always up to date and you don't have to rekey the information.

Automatic bank reconciliations

Train the accounting software to recognise common transactions and post them to the appropriate nominal codes. Helping improve the accuracy and efficiency of the reconciliation.

As a Xero Gold partner, and one of the leading Xero partners in Scotland with over 30 certified staff we are well placed to help you understand the benefits and opportunities.

We can help your practice by:

- Choosing the right online accounting package
- Training key staff on using the software
- Providing bookkeeping and management accounting support

View copies of supplier invoices online

Attach electronic copies of supplier invoices to the actual accounting transaction, meaning you don't have to source the paper copies.

24/7 access to your financial information

Having secure access to your accounting information through a web browser means you can check on your performance at any time and from any location with an internet connection.

Constant upgrades to the software

No need to spend time installing new updates; the software is being constantly updated in the cloud so you always have the most up to date version.

How we can help

There are a number of different cloud accountancy packages, including Xero and QuickBooks.

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