

# medical news

Autumn 2009

**£100,000**

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## Avoiding a 60% income tax rate

**It has been well publicised that a new 50% rate of income tax is being introduced from 6 April 2010 for individuals with taxable income in excess of £150,000. Pension contributions are deducted before arriving at taxable income so there are very few GPs who will be affected by this new rate.**

Less well publicised is the withdrawal of personal allowances for individuals with taxable income in excess of £100,000. The way this will work is that the personal allowance will be reduced by £1 for every £2 of income in excess of £100,000. This is illustrated in the table.

It can be seen that between £100,000 and £110,000 the income after personal allowance increases by £15,000, although income has only increased by £10,000. Thus the effective tax rate for earnings in this band is not 40% but 60%.

If a GP knows that this taxable income is going to be in the range of £100,000 to £112,950 then an additional pension contribution could be made, to bring income down to £100,000. This contribution would then get tax relief at 60%.

A problem with making an additional pension contribution is that it has to be made before the end of the tax year. For practices with a 31 March year end, the profits and taxable income will not be known until after the end of the tax

year has passed. This is one instance where it will be advantageous to have an accounting year ending on say 30 April or 30 June. The accounts for these periods will be known before the end of the tax year, giving time to make a reasonably accurate estimate of taxable income and assess whether a pension contribution will get this enhanced tax relief.

### Charitable giving as tax planning

For individuals with income in the £100,000 to £112,950 band, charitable gift aid donations will be a very efficient way of giving to charity. Unlike pension contributions, gift aid donations, provided they are paid before the tax return is filed, can be made in the subsequent tax year and carried back to set against income of the earlier year.

Charities can recover 25p for every £1 given under a gift aid declaration, plus until 5 April 2011 further transitional relief of 3p.

For example, if a taxpayer, having completed (but not filed) their tax return for 2010/11, discovers that their taxable income is between £100,000 and £112,950 they could make a gift aid donation before filing their return and elect for it to be treated as a payment made in 2010/11. A donation of £100 would reduce their tax bill by £50. The charity would receive the £100 plus £28 gift aid claim. Thus the after tax £50 donation is turned into a £128 receipt by the charity, more than doubling its value.

Table	£	£	£	£
Taxable income	90,000	100,000	110,000	120,000
Personal allowance	(6,475)	(6,475)	(1,475)	-
<b>Income after personal allowance</b>	<b>£83,525</b>	<b>£93,525</b>	<b>£108,525</b>	<b>£120,000</b>



**18%**  
**a flat rate of 18%**  
**is applied to all gains**

# New capital gains tax regime simpler – yes: fairer - ???

On 6 April 2008 a new capital gains tax regime came into effect. This is a vast simplification on the old rules, but most GPs will find they will be paying more tax on the sale of business assets than they would have done under the previous regime.

The new rules simply require the difference between the sale price and the purchase price to be calculated, deduct from this the annual exemption, and any excess is then taxed at a flat rate of 18%. The only relief from this is the introduction of a new entrepreneur's relief, which in certain circumstances will reduce the gain by four-ninths, thus giving rise to an effective tax rate of 10%.

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	Without entrepreneur's relief (£)	With entrepreneur's relief (£)
Proceeds	150,000	150,000
Cost	(60,000)	(60,000)
	90,000	90,000
Entrepreneur's relief (4/9ths)	-	(40,000)
	90,000	50,000
Annual exemption - say	(9,600)	(9,600)
Gain chargeable to CGT	80,400	40,400
<b>CGT at 18%</b>	<b>14,472</b>	<b>7,272</b>

Not all disposals of business assets will qualify for entrepreneur's relief as certain conditions must be met. In the case of an individual selling an asset these conditions are met where:

- the business has been owned for at least one year; and
- there is a disposal of the whole or part of a business; or
- a disposal of business assets within three years of the business ceasing.

#### Example 1

Partner A retires, and at the time of his retirement, he sells his interest in the partnership to his continuing partners. This includes his share of the freehold property. The gain on the sale of the freehold property qualifies for entrepreneur's relief because the asset was sold as part of the partner's disposal of his interest in the partnership.

#### Example 2

Partner B retires, but continues to own a share in the freehold property and receives a share of the notional rent from his continuing partners. He eventually sells his share of the property four years later. This sale will not qualify for entrepreneur's relief, because at the time of sale his share of the property is deemed to be an

investment and not a business asset.

#### Example 3

Practice C move out of their existing freehold premises and move into a new health centre which they rent from a developer. The partners each have a gain on the sale of the freehold premises but no entrepreneur's relief will be available as they have not sold their business, merely an asset used in their business.

In summary the new capital gains tax rules are much simpler, but the major changes from the old regime are:

- a flat rate of 18% is applied to all gains;
- it makes no difference how long you have held the asset;
- no relief is given for the effect of inflation on the value of assets;
- with the limited exception of entrepreneur's relief there are no distinctions between business and non-business assets.

## Not all disposals of business assets will qualify for entrepreneur's relief

## Vat changes in the near future

### Increase in standard rate of VAT to 17.5%

When the Chancellor reduced the standard rate of VAT from 17.5% to 15% last December, he also announced that from 1 January 2010 it would return to 17.5%. Remember to charge the new rate on any VATable services provided on or after 1 January 2010 and to update any price lists on display to reflect this change. Also ensure that entries posted to your accounting software use the correct rate of VAT.

### Filing VAT returns on-line

From 1 April 2010 all businesses with an annual turnover, net of VAT, exceeding £100,000 will be required to file VAT returns on-line and to make VAT payments electronically. Completing VAT returns online actually speeds up the issue of refunds by HM Customs & Excise, so there is every reason to register for on-line filing now and not wait until next April. To register go to <https://online.hmrc.gov.uk/registration/organisation> and follow the instructions.

## VCT season

**We believe the Government's current fiscal policies will lead to a rise in tax rates in the future. Our Financial Services team are therefore recommending that clients look to utilise tax efficient investments and shelter some monies from that potential rising tax burden.**

One opportunity is to invest in a Venture Capital Trust (VCT) and we are approaching the time in the year when a number of VCT's are launched in the market place.

The main attraction of investing in a VCT is:-

1. 30% Income Tax relief is given on the contribution (subject to the relief not being more than your actual income tax liability in the year of investment)
2. All dividends from the VCT itself are free of Income Tax both now and in the future.
3. Any gain on the VCT itself is free of Capital Gains Tax.

You must hold the VCT for five years to retain the valuable Income Tax relief but we believe there will be a number of risk graded plans available in the market soon.

## 30% Income Tax relief is given on the contribution

**If you would like further details then please contact Alan Turner, Managing Director of our Financial Services Company.**

**Email: [aturner@winterrule.co.uk](mailto:aturner@winterrule.co.uk)**

## New offices

We are delighted to be able to produce this Autumn 2009 edition of our newsletter for GPs and practice managers from our new office. If you would like any further information on any of the subjects raised, or more details of the services we can provide to GP practices please contact Luke Bennett at [lbennett@winterrule.co.uk](mailto:lbennett@winterrule.co.uk)





2008

a positive choice needs to be made if GP wants to move to the 2008 section

## NHS pension choice

All GPs who joined the NHS pension scheme before 1 April 2008 are to be given a choice whether to remain in the present scheme (known as the 1995 Section) or to move to the new scheme (known as the 2008 Section).

A positive choice needs to be made if a GP wants to move to the 2008 section. If no choice is made, then the GP will remain in the 1995 Section. A decision to join the 2008 section, if made, is irrevocable.

It is anticipated that it will not be worthwhile for most GPs to transfer to the 2008 Section. It might be worth further consideration for GPs who:-

- Are sure they wish to work until at least age 63, or who
- Have service before 6 April 1988 and wish to maximise family benefits for a widower, civil partner or nominated partner.

The key differences between the two sections are:

	1995 Section	2008 Section
Normal retirement age	60	65
Minimum age for voluntary early retirement	50 (55 for any member joining after 5 April 2006)	55
Pension based on % of uprated earnings per year	1.4%	1.87%
Added years' contributions	Existing contributions continue	Not permitted. Credit given for contributions to date
Retirement lump sum	3 x pension. Option to exchange part of pension for increased lump sum	Option to exchange part of pension for cash at retirement up to 25% of capital value
Family benefits death after retirement		
Widow	50% of pension	50% of pension
Other nominated adult dependent	50% of pension based only on membership since 6 April 1988	50% of pension

This article is designed for general guidance only. Specialist advice should always be sought in relation to your own circumstances and can be obtained from Winter Rule Financial Planning Limited.



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