# Hot tax topics for GPs

Presentation dated 20 May 2019

# Topics to be covered

- Introduction
- Back to basics - How is your tax liability calculated?
- Back to basics - How will your pension be calculated?
- Treatment of employer's superannuation
- Various 'quick' issues - gift aid, child care, maternity, national insurance, partnership agreement, 24-hour retirement, possible future changes
- Tax trap 1 - Child benefit
- Tax trap 2 - Those who 'earn' over £100K
- Pension - Lifetime allowance charge
- Pension - Annual allowance charge
- Questions?

# Introduction

- The 'joys' of being self-employed
- Major problems 'squeezing' GPs into a pension scheme devised for employees

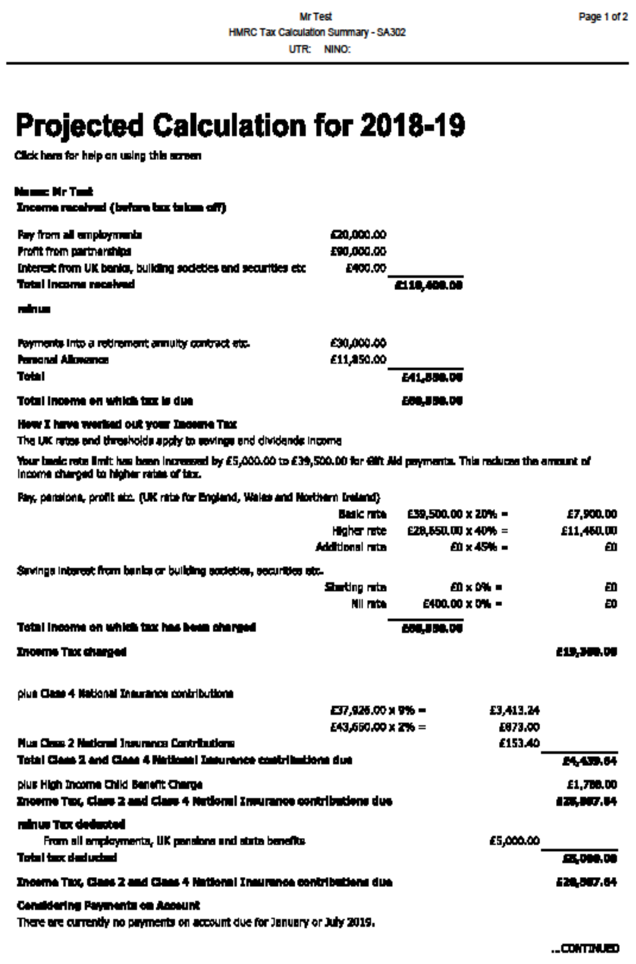
# What is your marginal rate of tax?

- If you were offered the chance to earn another £10K this year, how much tax would you pay on it?
- After tax and other deductions, how much would you actually keep?
- Would you do it if I told you that you would only keep, say, £2.4K? (Remind me to come back to that at the end!)
- The same logic applies when you are considering <u>reducing</u> your income

# How is your tax liability calculated?

- See sample calculation (based on 2018/19 figures):
  - Pay from employments - As per P60s (net of ee superan)
  - Profit from partnerships - Share of profits as per accs less personal expenses
  - Payments into pension scheme - Superannuation (Both ee and er)
  - Personal allowance - Maximum of £12,500, but can be as low as Nil
  - Gift aid
  - Various rates of tax
  - NIC Class 4
  - NIC Class 2 - Trivial amount, but can be important
  - High income child benefit charge
  - Deduction for tax suffered from employments - As per P60s

# Sample tax calculation





## Projected Calculation for 2018-19

Click here for help on using this screen

**Name: Mr Test**
**Income received (before tax taken off)**

| | | |
|---|---|---|
| Pay from all employments | £20,000.00 | |
| Profit from partnerships | £90,000.00 | |
| Interest from UK banks, building societies and securities etc | £400.00 | |
| **Total income received** | | **£118,400.00** |

**minus**

| | | |
|---|---|---|
| Payments into a retirement annuity contract etc. | £30,000.00 | |
| Personal Allowance | £11,850.00 | |
| **Total** | | **£41,850.00** |
| **Total income on which tax is due** | | **[illegible]** |

**How I have worked out your Income Tax**

The UK rates and thresholds apply to savings and dividends income

Your basic rate limit has been increased by £5,000.00 to £39,500.00 for Gift Aid payments. This reduces the amount of income charged to higher rates of tax.

Pay, pensions, profit etc. (UK rate for England, Wales and Northern Ireland)

| | | | |
|---|---|---|---|
| Basic rate | £39,500.00 x 20% = | | £7,900.00 |
| Higher rate | £28,650.00 x 40% = | | £11,460.00 |
| Additional rate | £0 x 45% = | | £0 |

Savings interest from banks or building societies, securities etc.

| | | | |
|---|---|---|---|
| Starting rate | £0 x 0% = | | £0 |
| Nil rate | £400.00 x 0% = | | £0 |
| **Total income on which tax has been charged** | | **[illegible]** | |
| **Income Tax charged** | | | **[illegible]** |

plus **Class 4 National Insurance contributions**

| | | | |
|---|---|---|---|
| | £37,926.00 x 9% = | £3,413.24 | |
| | £43,650.00 x 2% = | £873.00 | |
| **Plus Class 2 National Insurance Contributions** | | £153.40 | |
| **Total Class 2 and Class 4 National Insurance contributions due** | | | **£4,439.64** |
| plus **High Income Child Benefit Charge** | | | £1,758.00 |
| **Income Tax, Class 2 and Class 4 National Insurance contributions due** | | | **[illegible]** |

**minus Tax deducted**

| | | |
|---|---|---|
| From all employments, UK pensions and state benefits | £5,000.00 | |
| **Total tax deducted** | | **£5,000.00** |
| **Income Tax, Class 2 and Class 4 National Insurance contributions due** | | **£20,567.64** |

**Considering Payments on Account**

There are currently no payments on account due for January or July 2019.

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# How will your pension be calculated?

- Annual pension will be a percentage of your total dynamised earnings
- 1995 Scheme - Pension 1.4%, lump sum 4.2%, normal pension age 60
- 2015 Scheme - Pension 1.85%, normal pension age SPA (67?)
- Ability to increase lump sum
- Most of you will have money in both schemes
- Full tax relief is given for contributions
- Possible Annual Allowance and Lifetime Allowance charges
- Pension will be taxable when received

# Problems caused by the treatment of employer's pension contributions

- Major problem - You are self-employed, so who is the employer?
- Things were relatively simply prior to the New Contract (2004)
- When New Contract was introduced, things became more complicated
- The responsibility for calculating your 'Superannuable Income' was passed to you
- From 2004 you have been responsible for paying both the employee's and employer's portion
- However, you have been reimbursed for the employer's portion

# History lesson

- The employer's portion started off at 7% (Anomaly for NI GPs)
- You received reimbursement for this 7% in the Global Sum
- This has increased 3 times - 13.3%, 16.3%, 22.5%
- If you look at your monthly payment advice from BSO, you will see reimbursement figures for the increases from 7% to 13.3%, and from 13.3% to 16.3%. (These figures cover the increases for both you and your staff)
- Hopefully you will soon see a third reimbursement figure for the increase from 16.3% to 22.5%
- By the way - you could now be paying as much as 37% of your superannuable income in superannuation! (22.5% + 14.5%)

# Effect of increase from 16.3% to 22.5%

- Theoretically it should be roughly neutral
- Example using estimated figures:

| | Before | After |
|---|---:|---:|
| Income | 120,000 | 126,200 |
| | | |
| Superannuation ee | (12,000) | (12,000) |
| Superannuation er | (16,300) | (22,500) |
| Net taxable income | 91,700 | 91,700 |

# Comparing your income with that of a Consultant

- Scenario - You are with a Consultant friend. They pull out their P60 for last year, showing taxable income of £92,000. You pull out a copy of your latest practice accounts, showing that your share of profits was £136,200. You feel smug
- However, you then realise that you had personal expenses of £10,000, bringing your income down to £126,200.
- You then realise that you made superannuation payments totalling £34,500 (see last slide). This brings your net income down to £91,700
- Not so smug now
- Then the final kick in the teeth ..............

# Comparing your income with that of a Consultant

- They also had private income for the year of £100,000!!

# Gift Aid

- If you are a basic-rate tax payer, for every £80 which you pay to a Charity, the Charity receives an extra £20
- If you are a higher-rate tax payer, for every £80 which you pay to a Charity, the Charity receives an extra £20 and you receive a tax reduction of £20
- This is the only 'expense' where you can elect to treat payments made in one year as if they were made in the previous year - very beneficial if your marginal rates of tax are changing from year to year
- Particularly beneficial if you are caught in tax trap 1 or 2 (see later)
- Does not help in issue of Annual Allowance tapering (see later)

# Child care

- There is a problem with child care vouchers - they do not work for the self-employed
- Recently, the government introduced tax-free child care

# Maternity

- Statutory Maternity Pay is only available for employees
- When a GP goes off on maternity leave, she can claim 'Maternity Allowance'
- You need to have clear policies in your practice to cover the financial consequences when a doctor goes on maternity leave

# National Insurance

- Class 4 NIC is basically tax under a different name
- Class 2 NIC is small - around £150 per year. However, if it is not paid, it will affect your retirement pension.
- Do you know if you have any gaps in your NI history?
- Check your personal tax account

# Partnership Agreement

- Areas where partners may fall out:
  - Holidays
  - Treatment of private income
  - Sickness
  - Maternity

# 24-Hour Retirement

- Needs agreement of other partners
- Be prepared for huge tax bill in the January following the end of first year (worse than you might think due to 'payments on account')

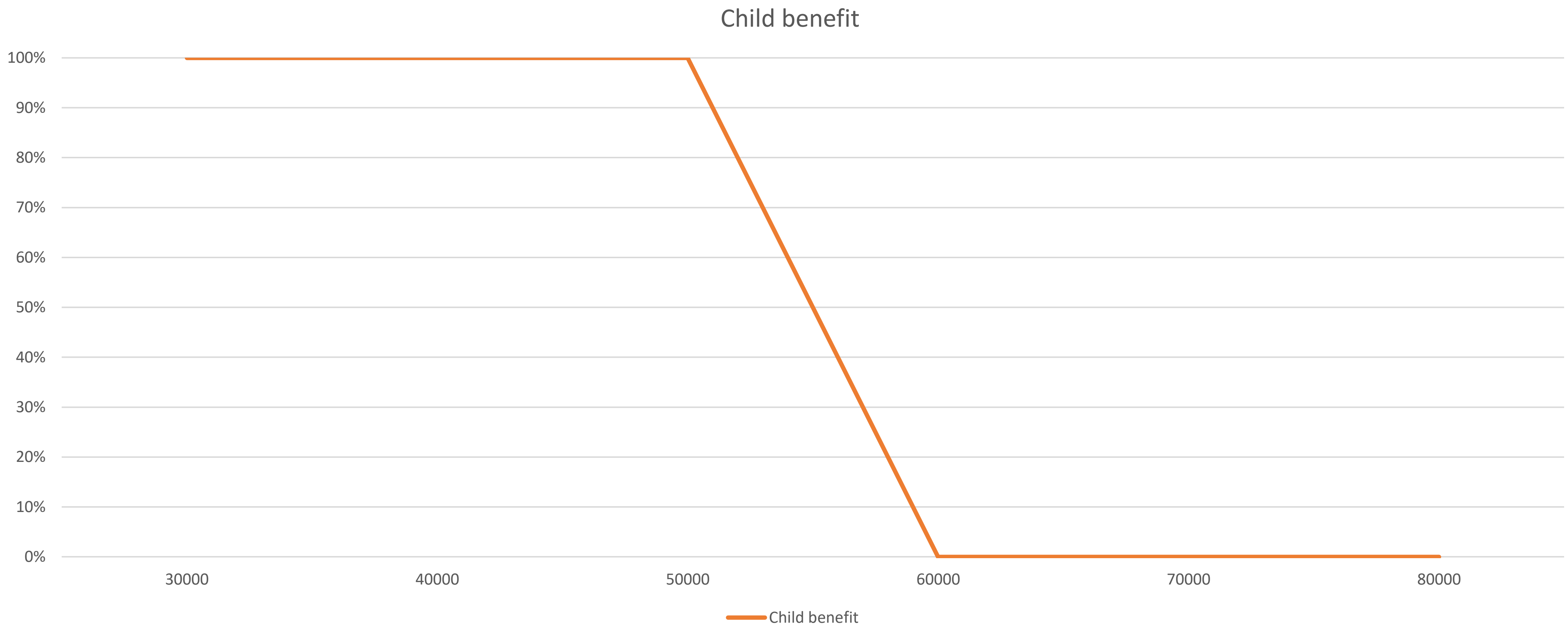
# Possible future changes

- Withdrawal of seniority - No immediate plans
- Withdrawal of Correction Factor - No immediate plans
- Major reduction in medical indemnity insurance payments - Waiting to see what happens in England

# Tax trap 1 - Child Benefit tax charge

- You are caught if you or your partner has taxable income over £50K

# Child Benefit tax charge



# Child Benefit tax charge

- Definition of 'Income' - after superannuation, after gift aid
- What if you think you will be above the £60K threshold, but are not sure?
- Even if you are well above the £60K threshold, you should still claim the benefit and then opt out

# Tax trap 2 - Income between £100K and £125K

- The personal allowance (currently £12,500) is gradually reduced to Nil for those with income between £100K and £125K

| Income | Effective tax rate |
|---|---|
| 0 - £12,500 | 0% |
| £12,500 - £50,000 | 20% |
| £50,000 - £100,000 | 40% |
| £100,000 - £125,000 | 60% |
| £125,000 - £150,000 | 40% |
| Over £150,000 | 45% |

# Effective tax rates

# Tax trap 2

- Definition of 'Income' - after superannuation, after gift aid
- What can you do - try to even out income over tax years?
- Reduce your income?
- Gift aid - If you are in this band, for every £80 which you pay to a charity, the charity receives an extra £20 and you receive a £40 tax reduction

# Pensions

- Disclaimer - I am not a Financial Advisor
- Do you need a Financial Advisor - They cost money, but the amounts involved are too big to take the risk

- Your type of pension is called a defined benefit pension, as opposed to a defined contribution pension
- Defined contribution scheme - The contributor has a 'pot' with their name on it
- Defined benefit scheme - You don't have a 'pot'. Rather, you basically have a 'promise' that the scheme will pay you a certain amount after you retire based on the rules of the scheme

# Pensions - History

- Government was under pressure to restrict tax relief on pension contributions
- Came up with 2 measures - Lifetime Allowance charge and Annual Allowance charge
- Lifetime Allowance charge is a potential one-off charge which applies when you take your pension. It is paid out of your pension pot
- Annual Allowance charge is a potential annual charge. It is payable by you personally, but you can (sometimes) elect to have it paid out of your pension pot.

# Lifetime Allowance and Annual Allowance

| Year | Lifetime allowance | Annual allowance |
|---|---|---|
| 2011/12 | £1,800,000 | £50,000 |
| 2012/13 | £1,500,000 | £50,000 |
| 2013/14 | £1,500,000 | £50,000 |
| 2014/15 | £1,250,000 | £40,000 |
| 2015/16 | £1,250,000 | £40,000 (unusual year, special rules) |
| 2016/17 | £1,000,000 | £40,000 (potential tapering) |
| 2017/18 | £1,000,000 | £40,000 (potential tapering) |
| 2018/19 | £1,030,000 | £40,000 (potential tapering) |
| 2019/20 | £1,055,000 | £40,000 (potential tapering) |

# Annual Allowance charge

- This charge have been around for quite a few years? So why has it only become a talking point recently?
- Reduction from £50K to £40K
- Carry-forward figures being used up
- Tapering!!

# How is the Annual Allowance charge calculated?

- Each year you need to compare your 'pension growth' against the AA figure. If it is more, you have a tax charge at a rate of either 40% or 45%
- What is 'pension growth'? Not what you put in! Rather, it is a figure calculated by Waterside House based on the rules of the scheme
- There are some anomalies in the method of calculation, meaning that your growth figures can fluctuate greatly from year to year
- Annual Allowance statements - Complicated. One for each scheme. Send it to your accountant as soon as you receive it

# Annual allowance charge - Good news and bad news

- Good news 1 - You can carry forward unused amounts from the previous 3 years
- Good news 2 - You can elect for the scheme to pay. There are time-limits for the election. Waterside House have said that, if they are late in sending out the AA statements, they will accept an election if it is received within 3 months of the date of the statement
- Bad news - Tapering - For those with 'Adjusted income' over £150K (note - this changed to £240K in Apr 20), the annual allowance figure can be reduced from £40K to as low as £10K

# Annual allowance - Tapering

- For the taper to apply, the limits on 'threshold income' and 'adjusted income' must both be exceeded.
- Threshold income limit is £110K (Increased to £200K in Apr 20)
- Adjusted income limit is £150K (Increased to £240K in Apr 20)
- In <u>very</u> simplistic terms, 'Threshold income' for GPs is defined as 'Taxable income' less 'Superannuation paid'
- In <u>very</u> simplistic terms, 'Adjusted income' for GPs is defined as 'Taxable income' less 'Superannuation paid' plus 'Pension growth'
- Note - I have had the above definitions queried, but I stand by them. There is a complication for GPs in interpreting the rules due to the treatment of employer's pension contributions referred to earlier.
- Note - Income means <u>all</u> income, not just medical income

# Election for scheme to pay

- Initially the rules said that the election could only apply to the element of AA charge caused by the pension growth exceeding the 'normal' AA figure of £40K, and that the election could not apply to the element of the charge caused by tapering
- Recently it was announced that this restriction would be removed from April 2017, so that the election could be applied to all of the charge

# Annual Allowance charge

- How many of you will be affected?