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ASK THE EXPERTS

Pensions, premises expenses and tax relief

Q EARLY RETIREMENT

I will be taking early retirement at age 54 early in 2010 and drawing my NHS pension.

I understand it is possible to increase my tax-free lump sum and decrease my annual pension. I think it might be better to maximise the pension rather than the lump sum but I am having difficulty deciding.

Can you advise?

The so-called 1995 section of the NHS Pension Scheme (NHSPS), applicable to members who joined before 1 April 2008, provides a tax-free lump equivalent of three times annual pension.

This is less than the maximum permitted but members can give up some of their pension entitlement to increase their lump sum up to the maximum.

The maximum is generally 5.36 times the pension, and you must commute (give up) £1 of pension for each additional £12 of lump sum.

Whether it makes sense to take the maximum lump sum depends on individual circumstances.

For example, if you think that you will have sufficient remaining income (from all sources) to maintain your desired lifestyle, taking the maximum might enable you to spend capital on things you could not otherwise afford.

But if your cash flow might be stretched, taking the largest pension possible may provide greater peace of mind.

I suggest you ask your financial adviser to conduct a comprehensive review of lifestyle and financial needs first.

Kevin Quinn

Q PREMISES DISPUTE

Two of us own the surgery which we bought from a third partner last year. We have a mortgage with a monthly payment significantly higher than the borrowing costs reimbursement.

The non-owning partner claims that, as the property owners, we are responsible for all the expense of repairing the building's exterior and for the internal fixtures and furniture. We spent a lot on the roof and redecorating the nurses' rooms last year.

Our primary care organisation (PCO) is not funding the full mortgage interest, or anything for repairs and maintenance.

The general rule is that where the property-owning partners receive notional rent or current market rent reimbursement, they should bear the responsibility of paying for the buildings (not contents) insurance plus the cost of external repair and decoration, and structural repair.

The partnership, regardless of which partners own the premises, should pay for contents insurance and for internal decoration and repair. This is because when the district valuer (DV) assesses the notional rent or current market rent for the PCO, normally between 5 and 7.5 per cent is added for external/structural repairs and buildings insurance.

The situation is more complicated if you receive borrowing costs (formerly called cost rent) as this is not based on the DV's assessment but is a percentage of the land purchase and building costs. It does not include any element for external repair and buildings insurance. So while you continue to receive borrowing costs reimbursement, the three of you will need to come to some form of compromise agreement.

John Hearle

Q PENSIONS TAX RELIEF

I am confused about pension contributions. Are GPs normally taxed before they are deducted or after? If we are taxed before does that mean we have already paid 40 per cent tax on them so canceling next year's tax relief?

You pay tax on your income after deduction of the pension contributions paid in that tax year. If you income was £100,000 and you had paid contributions of £15,000, then your taxable income would be £85,000. You only receive tax relief on pension contributions paid in the tax year, so for 2009/10 these would be the contributions paid from April 2009 to March 2010.

If you are a GP principal this would also include your NHS employer's contributions into the NHS Pension Scheme.

Jenny Stone

Ask your questions online

www.healthcarerepublic.com/experts

THE EXPERTS

Email questions or phone our experts...

NHS RULES
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INVESTMENT PLANNING
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