

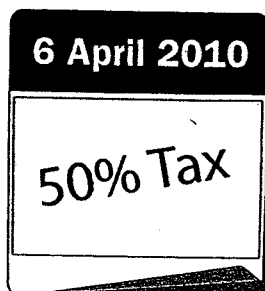
How to avoid the 50% supertax rate

Jenny Stone considers ways in which higher-earning GPs can reduce the impact of the new tax band

From 6 April 2010, a new 'supertax' rate of 50 per cent will be introduced for GPs with taxable income greater than £150,000.

Class 4 national insurance (NI) is also increasing from 1 to 1.5 per cent from 6 April 2011, which means a top rate of tax and NI of 51.5 per cent for self-employed GPs.

The personal allowance, which is the amount of income



that a person can earn tax-free, will be restricted by £1 for every £2 of income above £100,000. This will fall to zero for people with income over £112,950.

A GP who is earning £105,000 will pay £1,000 more tax from April 2010. GPs earning between £112,950 and £150,000 face an increase of £2,590, but a GP who earns £200,000 will pay £7,590 more.

However, with tax planning, you can reduce the extra tax.

Limited companies

There could be tax advantages for setting up a limited company for earnings outside the practice provided you do not need to draw all the income earned.

A company pays corporation tax between 21 per cent and 28 per cent on its profits. The most

tax efficient way to extract the income from the company is by way of dividend. However, higher rate taxpayers will have further tax to pay on this.

A company can include family members as shareholders so dividends paid to lower rate tax payers will have no further tax.

If the funds are left in the company until it is wound up, capital gains tax currently 18 per cent would be payable.

Your spouse

If your spouse pays lower rates of tax there are advantages in putting income-generating investments in their name; for example, interest-bearing accounts and shares.

Many single-handed GPs employ their spouse as the practice manager; you could transfer some income by increasing their pay, via a bonus or by making them a partner.

Investments

There are higher risk investments that provide income tax relief, such as venture capital trusts, enterprise investment schemes, film partnerships and enterprise zone trusts.

Interest earned on bank and building society accounts is taxable, so you should be using individual savings accounts limits to reduce the tax on this income.

Income generated from investments will be taxable at the higher rates. You could restructure investments so that instead of producing income, they produce a capital gain which is taxed at 18 per cent.

Expenditure on equipment, fixtures and fittings up to £50,000 qualifies for 100 per cent capital allowances and the full cost can be offset against income. Defer any major expenditure until after April 2010.

Earning less

Some GPs who will be paying the new supertax rate are considering dropping outside commitments, because they will be paying 51.5 per cent in tax and NI. Also, if outside jobs produce NHS income, a further 11 per cent (net of tax relief) will be paid in NHS superannuation leaving only 37.5 per cent of earned income as take-home pay.

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