Ramsay Brown & Partners

GP News

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Salaried GP or Partner: The Real Cost

by Laurence Slavin

The decision over whether to replace a retiring partner with a salaried GP has been hotly debated over recent years. Before the new contract, it was difficult to find GPs who wanted to be partners.

In many cases, salaried GPs were earning more than partners. It is worth remembering that IANI (Intended Average Net Remuneration) was set by the Department of Health as recently as 2002/03 at £61,618 for GP principals. The new contract has significantly increased the earnings of GP principals, whilst those of salaried GPs have remained fairly constant.

A consequence of this is that, at the time of a GP principal's retirement, a partnership may well think they will save a considerable amount of money by replacing the retiring partner with a salaried GP. Can these costs and savings be quantified? The good news is now they can.

In September 2009, the NHS Information Centre published "GP Earnings and Expenses 2007/08 Provisional Report", a report produced by the Technical Steering Committee (TSC). The report goes on for 99 pages and contains a lot of useful information.

The Executive Summary in the report mentions some interesting points. On average, they say contractor GPs (i.e. principals) work more hours than salaried GPs. One of the difficulties in comparing the earnings of a principal with a salaried GP is that the declared earnings of a principal include 14% employer superannuation contributions, however, the TSC have been able to exclude these contributions and in the report, declare the principal's earnings net of employer contributions.

According to the national averages published in the report, the average income before tax and after deduction of employer superannuation contributions for 2007/08 was £106,072. The earnings for a salaried GP on the same basis for 2007/08 were £55,790. Included in the principal GP figures are "fixed share" partners who receive a profit share at a pre-determined level. There are no figures for these GPs given in the report and they would be included in the principal GP findings.

So what factors need to be taken into account in comparing the costs of a salaried GP to the profits that would be attributed to a partner?

1. The amount of time a salaried GP works compared to a principal. The report quantifies this. The average full time principal works 44.4 hours (7.6 sessions) compared to the average 39.6 hours (5.3 sessions) for the salaried GP, a difference of 12.12%.

2. Employer's National Insurance will need to be added to the cost of the salaried GP, currently at 12.8% (increasing to 13.3% in April 2011).

3. The employer's superannuation that the practice will need to pay on the salaried GP's earnings.

Taking these costs into account, you can see from the table that the actual cost increases to £79,316.

That having been said, the report also specifically mentions that principal GPs have additional responsibilities over the salaried GP covering clinical, organisational, operational, financial and personal responsibility for the provision of GP services. The report gives no attempt to value these responsibilities, but it is not unreasonable to suggest that one session per week would cover these issues. This means that we need to discount the earnings for the GP principal to compare earnings excluding these factors.

From the table, we can see that the difference falls to earnings of £92,115 for a GP principal and costing of £79,316 for a salaried GP, a margin of £12,799 of replacing a retiring partner with a partner rather than a salaried GP.

There are other factors to be borne in mind. If you take on a partner, it is difficult to get them to leave if the partnership suffers a severe reduction in resources. You can always make employees redundant if you need to. Partners are involved in decision making. Not always a welcome intervention!

The model BMA salaried GP contract requires the GP principal to provide 30 days leave, 10 days public holiday, as well as professional and study leave. This is probably more generous than many partnership agreements.

From the analysis of the above, it is clear that a GP principal will earn more and accordingly, cost more than a salaried partner and should probably do so. The expectation is that GPs' profits will fall in the next few years, which may not have an effect on the level of salaried GPs' pay. The £12,799 disparity between the principal and the salaried GP is likely to close in the future, which will hopefully facilitate an environment where the choice between taking on a salaried GP or a principal will be based in what is appropriate for the practice's needs rather than the disparity of cost.

Cost of a salaried GP v. Full Time GP Principal

All information based on GP Earnings and Expenses 2007/08 Provisional Report.

Calculation of the cost of a salaried GP with on-costs	**£**
Cost of a salaried GP	55,790
Uprating to reflect same number of hours as a principal =55790 x 44.4/39.6 =	62,552
Add cost of employers NIC	8,007
Add cost of employers pension contributions	8,757
	£79,316

Comparison of costings after discounting one session for additional responsibilities of principal	**£**
Cost of a salaried GP including on-costs	79,316
Cost of a principal	106,072
Session set aside for other responsibilities : =1/7.6 x £106,072 =	(13,957)
	£92,115

Should I Move to the New NHS Pension?

by Kevin Quinn

With effect from 1st April 2008, there are two different sections within the NHS Pension Scheme (NHSPS). Members who joined the NHSPS prior to 1st April 2008 are in the "1995 Section". Anyone joining for the first time on or after 1st April 2008 will be in the "2008 Section".

1995 Section members in service on 1st October 2009 will, however, be given a one-off opportunity to transfer existing and future membership to the 2008 Section under the NHS Pension Choice Exercise (PCE).

PCE packs will be issued to eligible members on a "phased" basis. This is anticipated to start in January 2010 and end in December 2011. The packs will include personalised statements comparing the benefits members could receive at different ages in both sections. A choice form will also be included for members to complete and return confirming their decision by the deadline stated in the pack. Members who do not return the form will remain in the 1995 Section, but those who elect to join the 2008 Section cannot return to the 1995 Section.

Crucial Factors

The two most significant differences between the 1995 and 2008 Schemes are the accrual rates (i.e. the amount by which pension benefits accumulate each year prior to retirement) and the Normal Pension Age (NPA). The 2008 Section has a better accrual rate but the NPA is later (see table).

For most members, the key factor that will determine whether or not they will be better or worse off in the 2008 Section is the age at which they plan to retire.

This is because, although the 2008 Section has a better accrual rate, members in the 1995 Section can retire on or after age 60 without penalty. Members of the 2008 Section, however, would incur a penalty by taking benefits before age 65.

Assuming that normal circumstances apply, our calculations show that members under the age of 60 on 1st October 2009 who plan to retire before age 63 are likely to better off remaining in the 1995 Section whilst those who plan to retire after age 64 would benefit from moving to the 2008 Section.

Key Differences between 1995 and 2008 Sections

Benefit/Feature	1995 Section	2008 Section
Normal Pension Age (NPA)	60 (55 for members with "special class status")	65 (special class status does not apply)
Minimum voluntary early retirement age	50	55
Annual Pension for GPs	1.4% of Career Average Re-valued Earnings (CARE)	1.87% of CARE
Annual Pension for other Scheme members	1/80th of final pensionable pay for each year of scheme membership	1/60th of reckonable pay for each year of scheme membership
Minimum Lump Sum	3 times annual pension	Members who transfer to the 2008 Section **must** take a lump sum equivalent to the minimum they had earned under the 1995 Section at 31st March 2008
Voluntary Early Retirement	Benefits reduced if taken before age 60 (except special class status)	Benefits reduced if taken before age 65 (no special class status)
Late Retirement Factors	Not applicable	Pension earned up to age 65 increased if taken later than 65
Flexible Retirement	Further pension accrual not possible after benefits taken	Can accrue further pension on return to NHS work after retirement

Other Key Points

- Members under age 60 receive a "day for day" credit for their accumulated 1995 Section membership transferred to the 2008 Section.
- Members aged 60 or over receive a reduced transfer credit varying with age.
- In order to transfer to the 2008 Section, all existing 1995 Section membership must also be transferred.
- Contributions are the same for both schemes.
- It is not possible to take benefits from the 2008 Section before age 55.
- Added Years (AYs) are not available in the 2008 Section. Existing AY contracts would therefore cease on transfer with the member receiving a credit in the 2008 Section for AYs purchased before transfer.
- Some members in the 1995 Section have special class status (certain nurses, midwives, health visitors, physiotherapists and mental health officers), which means that they can retire from age 55 without any reduction to their benefits. Special class status is not, however, offered in the 2008 Section.

Seek Advice

The circumstances and issues outlined in this article are not exhaustive and other factors could also be important depending on personal circumstances.

What does seem clear, however, is that, in normal circumstances, members who feel certain they will retire before age 63 are likely to better off remaining in the 1995 Section.

Members who are unsure about which Section is likely to be most appropriate for them should seek guidance from their financial adviser before making a decision.

For members who do not have an adviser, Ramsay Brown Financial Services Limited offer a specific NHS Pension Review service that would include advice about whether or not it is likely to make financial sense for members to transfer to the new scheme. If this is of interest, please feel free to speak to Kevin Quinn to discuss your personal requirements (telephone: 020 8370 7716).

The New Ramsay Brown Website

Please take a look at our new website which has recently been updated.

You can access our website at www.ramsaybrown.co.uk where you can log in to check your tax liabilities, download personal expenses claim forms, recent newsletters and other useful information.

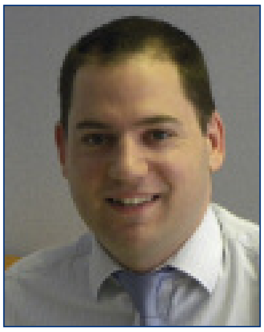
Accessing your tax liabilities

If we have prepared your tax return, we will have written to you detailing your tax liabilities.

You can also check your liabilities via our "client tax login" area on our website. To do this, you will need your ten digit reference number, which appears on your tax return and your date of birth. You can also download a payslip and envelope if you do not receive these from the Inland Revenue.

Latest News Area

You can download personal expenses claim forms, recent newsletters and other useful information via our latest news area. To access this information, you will need to register by clicking "member login".
A window will then appear asking for username and password, however, if you are not registered, click on "sign up for membership".



Limited Company Administration

by Wayne Cooper

In a world where increased "red tape" seems to be making every professional task a real chore, it is refreshing that the administration of a Private Limited Company remains relatively straightforward.

Fortunately, there is a short checklist of administrative deadlines that need to be remembered by the director or secretary of a small owner-managed limited company. With the recent full implementation of Companies Act 2006, which has seen the Companies House filing deadline for statutory accounts align with HM Revenue and Customs' deadline for the payment of Corporation Tax, the number of dates that need to be etched into the memory has also been reduced.

Every limited company has a requirement to file annual statutory accounts with Companies House. A company has nine months in which to prepare, approve and file its annual accounts, therefore, a company which has the (always popular!) accounting year end of 31st March is required to file annual accounts with Companies House no later than 31st December. Failure to do so results in a late filing penalty, which is initially set at £150, but can rise to £1,500 dependent on the period of time which elapses between the deadline in question and the late arrival of the accounts at Companies House.

The same nine month deadline is applied to the Corporation Tax liability of the company. The preparation of your annual accounts will enable you to calculate any potential liability to Corporation Tax on the results contained therein. These monies must be paid over to HM Revenue and Customs within nine months of the accounting year end of the company. Interest will be charged on late payment and is calculated on a daily basis as a percentage of the outstanding liability. This "late payment interest" rate was increased on 29th September 2009 and is currently set at 3%. Therefore, the larger your company profits are for the year, the larger your Corporation Tax liability is likely to be and in turn, the larger the financial cost of not paying the tax over by the correct date.

Whilst HM Revenue and Customs enforce a nine month deadline regarding the actual payment of Corporation Tax, they are somewhat more relaxed regarding the filing of the Company Tax Return (CT600). The Company Tax Return performs the same function for a limited company as the Income Tax Self-Assessment Tax Return does for individuals. However, unlike Income Tax, where the dates for filing returns and making payments are the same, the deadline for paying Corporation Tax is before the deadline for filing the return. The Company Tax Return is required to be filed twelve months after the accounting year end, giving the company an additional three months' grace. In practice, the return will be completed in conjunction with the Corporation Tax calculation (prior to the nine month deadline), meaning that this "extension" actually provides very little benefit. However, if a company were to take longer than twelve months to submit their return, an immediate flat rate penalty of £100 becomes payable, with an additional £100 being charged if it remains outstanding for three months.

The last, but not least, of these important dates is with regards to the Annual Return of the company. A limited company is required to deliver an Annual Return to Companies House at least once every twelve months. The Annual Return is a snapshot of a company's directors, shareholders, share capital and registered office at a particular date (known as the "made-up" date). In practice, the made-up date will be the anniversary of the incorporation of the company. Each year, the Annual Return will need to be submitted within 28 days of the anniversary of the made-up date of the last return. Therefore, if your company was incorporated on 1st April 2009, the first Annual Return will be made up to 1st April 2010 and must be submitted to Companies House by 29th April 2010. Failure to keep these records up to date may mean that Companies House will strike your company from the register. Even more seriously, not submitting an Annual Return is a criminal offence and Companies House are within their rights to prosecute the company and its officers.

Naturally, there can be further administrative complications for your company. For example, if you are VAT registered, this brings with it its own deadlines, as does employing a significant workforce, which will entail all of the necessary PAYE/National Insurance paperwork. This tends not to be the case for most small owner-managed companies. Therefore, if you can bear in mind the major deadlines detailed above and the relevant dates on which they fall for your company, you should be able to keep one step ahead.

Maximising Tax Relief When Buying a New Car

by Jenny Stone

We are often asked whether a new car should be purchased outright or leased. The tax relief available on cars purchased after 6th April 2009 has changed and is now dependent on the CO_2 emissions.

Outright Purchase

If you purchase a car, you are able to claim a writing down allowance (WDA) on the cost of the car each year that it is used in your business. If you lease a car which gives you an option to buy it at the end of the term, for tax purposes, the car is treated as if it belongs to you although, legally, it is still owned by the finance company until all of the payments are made.

The rate of the allowance on the cost of a car purchased after April 2009 is calculated according to the car's CO_2 emissions which are as follows:

Environmentally Friendly Car

If you purchase a car which emits no more than 110g/km of CO_2 emissions and you are the first registered owner, you can claim 100% capital allowances restricted to the business use of the car regardless of cost. If you are not the first registered owner, you will only be able to claim 20% capital allowances, restricted to the business use.

There will then be no further allowances available while you continue to use it in your business. When you sell the car, you will have to pay tax back on the business portion of the money received.

Cars emitting CO_2 between 111g/km and 159g/km

For cars that emit between 111g and 159g of CO_2 emissions, you can claim 20% capital allowances of the cost per annum on a reducing balance basis restricted to business use.

Cars emitting CO_2 of 160g/km

For cars that emit more than 160g of CO_2 emissions, the amount you can claim reduces to 10% per annum on a reducing balance basis restricted to business use.

The previous restriction of £3,000 per annum has been abolished for all cars purchased after 6th April 2009.

The tax value of your car reduces each year by the allowance claimed. When you sell the car, you will receive tax relief on the difference between the tax value and the sale proceeds. If the sale proceeds are higher, then you would have tax to pay on the difference restricted to business use. In the example below, if the car was sold in year 3 for £15,000, then you would be able to claim the business use of the difference, i.e. £3,560.

You can also claim tax relief on the loan or HP interest restricted to business use.

Transitional Rules until 6th April 2014

The above changes relate to cars purchased after 6th April 2009. For cars acquired before this date, the old rules will continue to apply. This means that, for cars costing £12,000 or less, the WDA will be 20% and for cars over £12,000, the £3,000 restriction will apply.

Leasing

If you lease a car which has no option for you to purchase, this is effectively a rental agreement between you and the leasing company. If the CO_2 emissions are below 160g, you would be able to claim the business use of the monthly payments. If the car emits more than 160g, the monthly payments are restricted to 85%.

Example

If you purchased a car which emits 150g CO_2 emissions for £29,000 and you claim 50% business use, the capital allowances would be as follows:

		Business Claim- 50%	Tax Relief @ 40%
	£	£	£
Year 1			
Cost	29,000		
WDA @ 20%	(5,800)	x 50% 2,900	1,160
WDV Cfwd	23,200		
Year 2			
WDA @ 20%	(4,640)	x 50% 2,320	928
WDV Cfwd	18,560		

Staff profile

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Job Title:
Accountant

When you were a child, what did you want to be when you grew up?
An Army Officer

Give 3 words that describe you:
Honest, thoughtful and emotional

If you could invite up to 3 people to dinner (alive or dead), who would they be?
My mum, dad and my wife

What won't you leave home without?
My Oyster travel card

What is the last book you read?
I Blame the Scapegoats by John O'Farrell

What is your secret vice?
I don't have any

What is your greatest ambition?
To live happily ever after

People would be surprised to know that…
I was on a TV show

What is your favourite quote?
"God always forgives, humans sometimes forgive, nature never forgives"

What is your favourite movie?
A Walk in the Clouds

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Thanks to Julia Hoad for editing this newsletter.