Starting Out as a Locum - A Financial Guide

Starting out as a locum is a big change from being employed as, not only do you have to find work, but you are now responsible for managing your finances and dealing with your tax affairs.

**Becoming self-employed**

You will need to inform HM Revenue & Customs (HMRC) that you are now self-employed. You should do this soon after you start as a locum and you can register online at [https://www.gov.uk/new-business-register-for-tax](https://www.gov.uk/new-business-register-for-tax)

**How you pay your tax**

The tax year runs from 6th April to the following 5th April and now you are self-employed, you will need to complete a tax return each tax year. The filing deadline for submitting your tax return online is 31st January following the tax year end. If your return is submitted late, you will incur an automatic filing penalty of £100 which can increase to daily penalties.

As an employee, your tax and National Insurance is deducted at source each month and you are paid net. Once you start as a locum, the practice will pay you gross of tax and National Insurance and you will be responsible for saving and paying your tax.

Your tax is paid twice a year and is due by 31st January and 31st July. Although there are two payment dates, you actually pay three instalments of tax for a tax year.

It is extremely important that you are saving for your tax as you earn it and you should save at least a third of your income for tax. In your first year of starting, you are not required to make any payments on account (unless you have previously submitted tax returns), therefore you have a long gap between the time you start working as a locum and when you pay your first tax bill.

**Example of tax payments**

If a GP starts as a locum in August 2016, their first tax return will be for the year ended 5th April 2017 (2016/17) and their first tax payment will be payable by 31st January 2018. They have completed their tax return for 2016/17 and they have a tax liability for the year of £20,000. The tax payments will be as follows:

<table>
<thead>
<tr>
<th>Date</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>31st January 2018</td>
<td>£</td>
</tr>
<tr>
<td>Balance for 2016/17</td>
<td>20,000</td>
</tr>
<tr>
<td>1st Payment on account 2017/18</td>
<td>10,000  <em>(calculated as 50% of tax for 16/17)</em></td>
</tr>
<tr>
<td>Total Payable</td>
<td>30,000</td>
</tr>
</tbody>
</table>
HMRC will automatically calculate that this GP has to make tax payments in advance of their tax liability for 2017/18. These payments are calculated as half of the previous year’s (2016/17) tax liability.

Once the tax return for 2016/17 is completed, the total tax liability is compared to the payments on account and the balance is payable the following January, i.e. 31st January 2019. This is the third instalment of tax for the tax year, plus a payment on account is paid in advance for the following tax year (2017/18).

**Setting your fees**

Usually, locums will charge a fee based on the number of hours worked. You will need to make sure you agree with the practice what your fee covers, e.g. does this include doing visits?

You also need to clarify the cost of the employer’s pension contribution which practices are now required to pay to the locum. Some practices may not pay this on top of your locum rate and instead, expect you to include it within your rate.

The BMA no longer publish a guide to locum rates, so it is a good idea to ask around to find out what other locums are charging in your area, as the rate can vary.

You will need to send an invoice to each practice you work at, detailing the hours worked and your fee and the total amount you are owed, including the employer’s pension contribution.

**Paying NHS Pension Scheme contributions**

You can pension your locum income if this is paid to you as a self-employed locum. To do this, you will need to download and complete the GP Locum A and B forms from the NHS Pension Agency [http://www.nhsbsa.nhs.uk/Pensions/4199.aspx](http://www.nhsbsa.nhs.uk/Pensions/4199.aspx)

You should complete Part 1 of the GP Locum A form and send this to the practice with your invoice for your locum work. At the end of the month, you should complete the GP Locum B form which summarises your locum work for the month and the amount of employee and employer superannuation contributions due. This form should be sent, together with a cheque for your contributions, to your local pension office. If you want to pension your locum income, you should complete these forms as soon as you start as there is a ten week deadline.
Your pensionable pay will be 90% of your locum income and when you complete form B, you will need to decide which employee’s tier rate you should be paying. This rate is based on your total pensionable earnings for the year, so you will need to estimate what you expect this to be and also include any salaried GP earnings. The tier rates are:

<table>
<thead>
<tr>
<th>Tier</th>
<th>Full-time pensionable pay</th>
<th>Contribution rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Up to £15,431.99</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>£15,432.00 to £21,477.99</td>
<td>5.6%</td>
</tr>
<tr>
<td>3</td>
<td>£21,478.00 to £26,823.99</td>
<td>7.1%</td>
</tr>
<tr>
<td>4</td>
<td>£26,824.00 to £47,845.99</td>
<td>9.3%</td>
</tr>
<tr>
<td>5</td>
<td>£47,846.00 to £70,630.99</td>
<td>12.5%</td>
</tr>
<tr>
<td>6</td>
<td>£70,631.00 to £111,376.99</td>
<td>13.5%</td>
</tr>
<tr>
<td>7</td>
<td>£111,377.00 and over</td>
<td>14.5%</td>
</tr>
</tbody>
</table>

**Expenses**

As a self-employed GP, there are a lot more expenses you can claim against your locum income compared to when you were employed, which will reduce the tax you pay. The expenses you claim must be wholly and exclusively incurred for your business. Some expenses incurred, such as your motor expenses, will be used for your business travelling to the surgeries and also for your personal travel, therefore an element of these expenses will be disallowed for personal use.

The typical expenses that GP locums incur and claim are motor expenses, use of home as an office, mobile telephone, home internet and computer expenses, professional subscriptions such as indemnity, courses and conferences, books and medical equipment. Motor expenses will include the running cost of your car such as petrol, insurance, road tax, servicing, MOT, repairs and breakdown cover. It is also important that you keep a mileage log of your business use so that you can determine how much of your car costs can be claimed. You can also claim capital allowances (a tax deduction) on the cost of your car and any hire purchase or loan interest.

**Record Keeping**

As you will need to submit a tax return, you will need to keep a record of your locum income and expenses together with invoices and receipts. Your records need to be kept for seven years. If HMRC open an enquiry into your tax return, you are likely to be asked to provide evidence of your income and expenses, together with evidence of how you arrive at your business use of costs that have both business and personal use.

You should also keep a copy of your locum A and B forms as the amount of pension contributions can be claimed for tax relief.
There are various software systems available to GP locums to manage their finances and record their income, however, a simple spreadsheet detailing your income and expenses will be sufficient as long as you have the invoices and receipts too.

You need to be aware that, from 5th April 2018, you will be required to report summary information to HMRC on a quarterly basis using special software Apps provided. This can be combined with a spreadsheet.

You may find it easier to keep track of your expenses if you use one credit card to pay for any business costs. That way, you will have twelve monthly statements that summarise your expenses.

**Problems with a practice paying you**

When you send an invoice to the practice, it should include your payment terms, which is usually 30 days. If you have not received payment after this time, you should contact the practice to see if there is a reason why the payment has not been made. If there is no good reason for the delay and after chasing them for a few months, you are still not paid, you would have to place a claim with a small claims court.

**Working for agencies or via a limited company**

If you work for a locum agency, you should still raise an invoice for the hours worked and amount of money you are owed. Often, the agencies themselves will send an invoice to you with the payment. You cannot pay NHS Pension contributions on locum income earned from the agency.

GP locums often hear from friends that they should set up a limited company to carry out their locum work as it will save tax. The tax rules regarding dividends have changed and usually, the locum will want to draw out all their income so there are very little savings with limited companies. Also, new rules being introduced from April 2017 will restrict locums using companies if they are considered by the practice to really be an employee of the practice as opposed to a locum. If you are considering setting up a limited company, you should seek advice from an accountant first.

For more detailed information, see the IR35 article below.

**The role of the accountant**

An accountant will assist in completing your tax return and advising you of your tax liabilities. They will also be able to give you advice about the expenses you can claim and make sure you are claiming everything you are entitled to claim. If your circumstances are changing, they will also be able to give advice about reducing payments on account and making sure you are paying the right amount of National Insurance.
The key to managing your finances as a locum is to be organised from the start. Keeping a record of income and expenses throughout the year will make gathering the information for your tax return a lot easier. It is also advisable to do your tax return early so that you know how much tax you have to pay and can plan for this to ensure you have enough money saved.