Ramsay Brown & Partners

GP News

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Are you earning in excess of £100,000 per annum yet?

by Stuart Singer

By maximising income under the new contract, 20% of our clients have already achieved this.

When the Government first presented the new contract to GPs it was on the basis that list size was no longer an important factor in determining practitioners' income. GPs would no longer have their own lists and overall, it seemed that life would be much less stressful. Well, here we are, almost one year into the new contract and nothing could be further from the truth.

List size is more critical than ever

Under the new GP contract, list size is more critical than ever. Under the old contract, capitation ranged from £19.50 to £49.75 for the small number of patients GPs had on their list of 75 and over. In addition, GPs received a reimbursement on average of 70% of ancillary staff wages.

Under GMS, both capitation and staff reimbursement have been rolled into the global sum and GPs now receive £54 per patient (based on their weighted list). Therefore, changes in list size now have a much greater impact on income than under the old contract.

If list size decreases, GPs will effectively be faced with a lower reimbursement to meet the staff costs whereas, as the list size increases, more money is available. Since practice list sizes can change without the need to necessarily change the staffing levels, where possible, GPs should try to maximise their list sizes in order to increase their profits.

The second major area is ensuring GPs maximise their income, from the Quality and Outcome Framework (QOF). My experience is that the majority of GPs are working hard to maximise this income but there is still a significant minority who are paying little attention to this. Practices that perform poorly in the 2004/05 year will have a significant knock-on effect in the 2005/06 year which will adversely affect their cash flow.

In 2004/05, practices are receiving an aspiration payment equivalent to one third of the total points. In 2005/06, this will increase to two thirds of the practices' achievement in 2004/05. In addition, the payment per point increases from £75 per average practice to £120. Therefore, practices must use the time between now and 31st March to ensure maximum points are achieved.

GPs must ensure maximum efficiency

This applies to all areas and savings can be made in lots of ways. However, the major expenditure is that of staff costs. Half of the average practices' expenditure is on this item alone and with no direct reimbursement, GPs must ensure maximum efficiency. Locum costs are another expensive item for many GPs and schemes such as the Flexible Careers Scheme should be explored. Shopping around for all the best deals on service costs, such as gas, electricity and telephone, is also worthwhile. With a large proportion of GPs now earning six figure incomes, following a few simple rules can put any GP in this earning's bracket.

Calculation of superannuable profit

by Jenny Stone

From 1st April 2004, under the new GMS contract, GPs' superannuation contributions will be calculated on actual NHS profits. This is a major change to the scheme, which will affect both GMS and PMS GPs.

Profit is total income less total expenses. For the first time, a practice's expenses will now have an impact on superannuation. It will be more important for practices to ensure expenses are controlled.

For example, if you compare two practices which have the same number of partners and the same earnings, under the old contract, they would have paid similar superannuation contributions. If one practice is more efficient in controlling their expenses than the other, under the new GMS contract, they would pay different superannuation contributions as a result of the different level of expenditure.

GPs will be required to complete and sign a form detailing the calculation of their NHS profits. As with your tax return, if you are clients, we will be able to complete this form for you.

The profits to be used for the calculation of superannuation are those assessed in the tax year 2004/05. This will be based on the accounts with year-ends from 6th April 2004 to 5th April 2005.

Calculation

Step 1 – The starting point for the calculation is the individual GP's profits, which have been declared to the Inland Revenue. This will be the GP's share of taxable profits after deduction of their personal expenses and capital allowances.

Some GPs want to maximise their personal expenses claim in order to reduce the amount of tax they pay. By doing this, not only will your expenses reduce your income for tax, they will also reduce your income for superannuation. Depending on the level of superannuable profits compared to previous superannuable remuneration, this may affect a GP's decision regarding the personal expenses they wish to claim.

Step 2 – Deduct non-NHS income. This will be non-NHS income which is included in the taxable profits figure in step 1, e.g. income from private medical reports. It is advisable that you ensure non-NHS income can be clearly identified from your records.

Step 3 – Add non-NHS expenses. For most GPs, non-NHS expenses will be calculated based on the standard method. This method calculates the non-NHS expenses based on the percentage of non-NHS income to total income. For example, if a GP's non NHS income is 6% of their total income, then 6% of total expenses (including personal expenses) will be deemed to be non-NHS expenses.

For GPs with non-NHS income exceeding £25,000, they will need to split their expenses on an actual basis. The expenses will need to be split between those that are wholly attributable to NHS income and those that are wholly attributable to non-NHS income. Expenses that cannot be separated will be allocated based on the standard apportionment method. Again, you may need to amend your records so that non-NHS expenses can be clearly identified.

Step 4 – Deduct interest that is paid on business loans. This will be interest which is not included in the accounts, but declared separately on your tax return.

Step 5– Add any income, which is from NHS bodies, which has not been included in the accounts and has not had superannuation paid on it.

Changes to how superannuation is paid

Under the old contract, superannuation was calculated and deducted before you were paid your income. As superannuation will be based on profits, the way that your contributions are paid has also changed.

Currently, the PCO are making deductions for superannuation based on an estimate of your profits. It must be stressed that this is only a payment on account and once your actual profits have been calculated, you may have a balance of superannuation.

You should also be aware that the balance in normal circumstances would be 20%. If any GPs were paying added years, then it will be more. The 20% is made up of the GP's contribution of 6% and the employer's contribution at 14%. The employer's contribution was

continued over

Example

A single-handed GP with a year-end of 30th September 2004 has net profits of £131,835. This includes private income of £14,835. An estimate of the potential balance can be calculated as follows:-

Net Profit per accounts	131,835
Less: Non-NHS income	(14,835)
Estimate of superannuable profits	117,000
GP's Contribution at 6%	7,020
Employer's contribution at 14%	16,380
Total superannuation due for 2004/05	23,400
Less: Payments on account	
GP's contribution at 6% (monthly £525 x 12)	(6,300)
Employer's at 14% (monthly £1225 x 12)	(14,700)
Balance due	**2,400**

previously paid by the PCO. The global sum and MPIG correction factor have been adjusted to include the employer's contribution, therefore practices are now responsible for paying the employer's contributions.

Practices need to ensure that provisions are made for the balance of superannuation. It would be advisable that when you receive your achievement payment for the QOF, some is put aside for superannuation. At present, it is not known when the balance of superannuation would be payable, however, it is likely that the deadline for submitting the completed forms would be similar to the tax deadline, i.e. 31st January 2006, therefore we would not expect the balance to be payable before this date.

If you would like to get an estimate of the potential balance, there is a basic calculation which can be downloaded from our website www.ramsaybrown.co.uk/lastestnews/pensions

Things to do before 5th April 2005

Personal Allowance

Make the most of income tax allowance. The basic personal allowance is £4,745, therefore ensure that you utilise your spouse's income tax allowance if they do not work.

Annual Allowance for Capital Gains Tax (CGT)

If you regularly make disposals of assets that trigger CGT, you should check your annual position before the tax year ends on 5th April 2005. As each individual has an annual CGT allowance of £8,200 for the tax year 2004/05, disposals can be timed around 5th April date to make maximum use of this annual allowance. Any capital losses incurred during the year, or unrelieved losses brought forward from previous years, are set off first against the chargeable gains. Indexation allowance on the original cost of the assets and taper relief from 5th April 1998 is given next. Thereafter, £8,200 of the remaining gain is free of any capital gains tax.

Have you used your annual allowance for an Individual Savings Account (ISA)?

If you have not already done so, you have just three months to make your investment in an ISA for the 2004/05 tax year.

With ISAs, you can save and invest up to a maximum of £7,000 per annum without paying income or capital gains tax on the proceeds. You can invest in a combination of the following types of assets: cash, stocks and shares and life assurance investments. The investments you hold within an ISA grow free of all income and capital gains tax and you are not liable to pay any income or capital gains tax on the proceeds of an ISA.

Anyone over the age of 16 can invest in ISAs, however, those aged between 16 and 18 can only invest up to £3,000.

To utilise this tax-free allowance, you need to invest in the ISA by 5th April 2005.

Charitable Donations

Any charitable contributions, however small, should be made under Gift Aid, so that it is tax efficient for both the taxpayer and the charity. Higher rate taxpayers can then claim for the additional tax relief due on their tax return. For couples who wish to make Gift Aid donations, it is preferable that the higher rate taxpayer makes the contribution rather than the basic rate taxpayer.

Accessing your tax liabilities via our website

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 login area on our website www.ramsaybrown.co.uk . 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 prepaid envelope if you do not receive this from the Inland Revenue.

Remember that your tax is due by 31st January 2005.

If you still have not sent your tax return information to us, please do so as soon as possible. If your tax return is not submitted by 31st January 2005, you will be liable to a £100 penalty.

5% surcharge on any unpaid tax due by 31st January 2005

If you have a balance of income and/or capital gains tax in respect of the tax year 2003/04 to pay by the due date of 31st January 2005 and you cannot afford to pay it by this date, you should ensure that it has been paid by 28th February 2005 at the latest. If any balance remains outstanding after this date, a 5% surcharge will be levied by the Inland Revenue. This surcharge will start incurring interest after 30 days if not paid.

If the tax has still not been paid 6 months after its original due date, a further 5% surcharge can be levied.

Interest is also charged daily on any outstanding tax that has not been paid by the due date.

Tax Tips

Stamp Duty Land Tax by Yogi Dhanak

Stamp Duty Land Tax (SDLT) replaced the old Stamp Duty regulations on 1st December 2003 and is applicable to transactions in land and buildings and lease rentals. Originally, property transfers in partnerships were excluded from SDLT, however, with effect from 23rd July 2004, certain transactions in land and buildings involving partnerships are to be brought within the charge to SDLT.

Particular care should be taken to ensure that the right amount of SDLT charge is calculated and the relevant tax paid. It should be noted that the tax needs to be paid within 30 days of the transaction. There are severe penalties for failure to file a land transaction return. We would therefore advise that a solicitor is appointed to handle the transaction and deal with the SDLT.

The rates of SDLT for business property are as follows:

Transaction Value	SDLT Rate
Not exceeding £150,000	Nil
£150,001 - £250,000	1%
£250,001 - £500,000	3%
£500,000 or over	4%

We envisage that the most common situation that may affect GP partnerships will be when a partnership owns land and buildings, AND

(i) an existing partner transfers all or part of his property share to another or an incoming partner for money or money's worth, OR

(ii) there is a new incoming partner and an existing partner reduces his property share (or leaves the partnership) and withdraws money or money's worth.

The SDLT charge will apply on a proportion of the market value of the land and buildings, the proportion being the acquiring partner's share immediately after the transfer.

Example

Dr. Brown joins a partnership and buys a 15% share of the surgery premises, which are valued at £1,400,000. The SDLT charge should be calculated on the following proportion:

(Acquiring partner's share) 15% x (Market Value) £1,400,000 = £210,000

The SDLT charge would be £210,000 x 1% = £2,100

Child Trust Fund by Lisa Mascarenhas

Some time before April, a TV advertising campaign will be running to draw people's attention to the availability of the Child Trust Fund from April 2005.

The Child Trust Fund will be available for children born after 1st September 2002. An information pack will be sent out between January to April 2005 and the vouchers will follow in April. The amount of the voucher will depend on the date the child was born.

The Government will make a further contribution to the fund when the child reaches 7 years old.

The following gives an indication of the amount of the vouchers:

Born between 1st September 2002 to 5th April 2003 - £277 Voucher

Born between 6th April 2003 to 5th April 2004 - £268 Voucher

Born between 6th April 2004 to 5th April 2005 - £256 Voucher

Born after 6th April 2005 - £250 Voucher

If you are receiving child benefit, then you should automatically receive the voucher. Parents should have already received a letter about this.

In addition to the vouchers issued by the Government, parents, the child, friends and relatives can contribute up to a total of £1,200 per annum between them. There is no tax relief for any contributions, but the investment will be free of income tax and capital gains tax. Trust Fund contributions from parents will not be affected by the settlements legislation, i.e. income generated from the fund will not be taxable on the parents.

When the child reaches 18, the money in the fund will be theirs - tax-free. Until then, the money is locked in. Therefore, the fund is an ideal way for parents to put some money aside for their children's future university costs or a deposit for a flat, without paying tax on the money as it grows.

If you would like more information about the Child Trust Fund or other ways of saving for your children, please visit www.childtrustfund.gov.uk or call the Child Trust Fund helpline on 0845 302 1470.

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