

## Changes in Superannuation Rates mean that Income will fall from April 2008

by Jenny Stone



GPs will see an increase in the cost of superannuation from April 2008 as a result of the changes to the NHS Pension Scheme. The majority of GPs have already taken a cut in drawings due to the pay freeze and this increase in superannuation will reduce drawings further!

### Changes to the Cost of Superannuation

The current rate of employee's superannuation is 6% and for GP and non-GP principals, you are also responsible for paying the employer's 14%, which means your total superannuation contribution is 20% of your pensionable pay. From April 2008, the new employee contributions will be based on how much you earn with a four tier sliding scale. For GPs earning between £19,166 and £63,416, the new employee's contribution rate will increase to 6.5%. For GPs earning between £63,417 and £99,999, the new rate will increase to 7.5% and for GPs earning over £100,000, the rate will increase to 8.5%. The earnings band that you fall into will mean you pay this rate on all of your pensionable earnings.

### Earnings Cap

GPs who joined the NHS Pension Scheme after June 1989 have been subject to the earnings cap and this has meant that, if they earn £150,000, they can only pay up to £112,800 into the pension scheme. From April 2008, the earnings cap will be removed and GPs will be able to pension all of their NHS income.

For those GPs who have previously been capped, they could see a significant increase in the cost of superannuation from April 2008 depending on their earnings.

### Example

A GP, who was previously capped, has pensionable profits of £150,000.

Current cost of superannuation	£
Pensionable Profits (capped)	112,800
Employee (6%)	6,768
Employer (14%)	15,792
<b>Total</b>	<b>22,560</b>

Cost of superannuation from April 08	£
Pensionable Profits	150,000
Employee (8.5%)	12,750
Employer (14%)	21,000
<b>Total</b>	<b>33,750</b>

Increased cost per annum	11,190
Per month (before tax relief)	932

### Monthly Drawings

As the cost of superannuation will increase for all partners, monthly drawings need to be adjusted to reflect the cost of this increase, otherwise partners may find that they are

overdrawing and will need to repay money back to the practice.

### Importance of Providing Estimates to PCTs

Each year, the PCTs ask practices to provide an estimate of pensionable profits to enable them to make monthly deductions for superannuation. Once the end of year certificate has been submitted, the PCT will then collect any shortfall.

It will be very important that these estimates are submitted to the PCT, as they will also need to determine the rate of superannuation that they should be deducting from practices. Otherwise, practices could be faced with large shortfalls which will be collected as one lump sum. For example, if you submit an estimate giving pensionable profits of, say, £90,000, once the end of year certificate has been completed, if your actual pensionable profits are £110,000, then not only will you have the shortfall on the difference in profits, but the PCT would have been collecting deductions based on 7.5% when, in fact, the rate you should pay is 8.5%.

Getting these estimates wrong could mean large shortfalls to pay which will impact on the practice's cash flow.

From our website, you can download a calculation of the increased cost of superannuation and the amount that should be deducted from your monthly drawings. This can be downloaded from our latest news area. You will need to register first to access this information, if you are not already registered.

### Employee superannuation rates from April 08

Annual Income	Current Contribution Rate	New Contribution Rate
Up to £19,165	6%	5%
£19,166 to £63,416	6%	6.5%
£63,417 to £99,999	6%	7.5%
Over £100,000	6%	8.5%

# Capital Gains Tax Reform



## – Loss of Business Taper Relief

by Laurence Slavin

The 2007 Pre-Budget Report announced proposals for significant capital gains tax reforms, which are likely to have a dramatic effect on GPs. If a GP sells their surgery, at present, they benefit from two principal reliefs - indexation allowance and business taper relief.

### Indexation Allowance

Where a surgery was purchased before 31st March 1998, the GP is entitled to increase the costs of the surgery by the effect of inflation. This relief was withdrawn in March 1998, but the effect of inflation up to that date is still available to a GP selling their surgery. If the GP acquired their surgery before March 1982, they are deemed to acquire it at its value in March 1982 and indexation allowance is not calculated any earlier than this date. Inflation from March 1982 to March 1998 is more than 100%, so the increase in costs for the purpose of working out the gain is significant.

### Business Taper Relief

Business taper relief was introduced in March 1998. If a surgery has been owned for two fiscal years, then 75% of the gain (after indexation allowance) is exempt. Clearly, this is a significant relief.

If you look at the attached example, the capital gains tax (CGT) on a disposal of £600,000 is only £25,615, or CGT of 5.69% on a real gain of £450,000.

### Single Rate of 18%

The current intention is to introduce a new single rate of CGT at 18% in April 2008. Taper relief and indexation allowance will be withdrawn. From the attached example, you can see the CGT on the same disposal mentioned above is £79,344, an increase of £53,729.

### Date of Sale

It is important to appreciate that the date of sale for capital gains tax purposes is the date that the offer becomes unconditional. For surgery sales, in most cases, this will be the date contracts are exchanged and not the date of completion.

### So what should GPs do now?

If a GP is thinking of selling their surgery in the near future, it will almost certainly be worth selling the surgery before the new single rate of 18% is brought in.

If a GP has a large gain sitting in their surgery, they could think about crystallising the gain before April 2008 to get the benefit of the indexation allowance and taper relief. For instance, the GP in the attached example could sell his surgery to a company he controls in March 2008. He would have to pay CGT of £25,615 and stamp duty of £24,000, but his company now owns the surgery at a cost of £600,000, so no further tax will be payable unless the value increases above £600,000 and then only on the increase. There are costs attached to this course of action; legal fees, accountancy fees for the company, etc. but the GP has potentially saved £29,729 of CGT which cannot be ignored.

These are proposed changes and you should, therefore, consult your accountant for the latest news on this topic before taking any action.

### Example of the change from Business Taper Relief to Single 18% Rate of CGT

#### Assumptions

Surgery purchased for £150,000 in March 1982

Surgery now valued at £600,000

#### Disposal on 31 March 2008

	£	£
Sale Proceeds		600,000
Less		
Cost	150,000	
Indexation Allowance	157,050	(307,050)
Gain after Indexation		292,950
Taper Relief		(219,713)
Gain after Taper Relief		73,238
Less Annual Exemption		(9,200)
Gain liable to CGT		64,038
Tax at 40%		25,615

#### Disposal on 30 April 2008

	£	£
Sale Proceeds		600,000
Less		
Cost	150,000	
Indexation Allowance	0	(150,000)
Gain after Indexation		450,000
Taper Relief		0
Gain after Taper Relief		450,000
Less Annual Exemption		(9,200)
Gain liable to CGT		440,800
Tax at 18%		79,344
Increase in Tax		53,729



# Welcome Relief for Doctors

by Richard Whittaker of Davis Langdon Crosher & James

As a doctor, you are probably more accustomed to giving relief than receiving it, yet certain items of expenditure found within a typical surgery or medical centre could represent significant property tax relief in the form of capital allowances and considerably reduce your tax bill.

A high proportion of the capital expenditure on surgery premises, medical centres or care homes that have been purchased, constructed, extended or refurbished within the past ten years may qualify for valuable tax relief. Any partner contributing to the works will see their personal tax liability reduced over a period of many years.

The type of capital allowance available in a healthcare building is plant and machinery (P&M). This can be fixed or loose equipment and includes heating, ventilation, air conditioning, hot water, sanitary ware, parts of the electrical work, lifts, carpets and furniture and fittings, to name but a few.

A successful claim requires a specialist combination of property valuation skills and construction cost expertise, together with the experience to identify the items which constitute "plant" in individual healthcare settings. Difficulties arise partly because "plant" has never been defined in legislation and varies depending on the building usage and setting and partly because items are difficult to identify from the project cost information.

Where a building has been purchased and no cost information is available, it is still possible to make a claim using just the contract purchase price. In our experience, we have found that anything up to 30% of the purchase price may qualify as P&M.

## Changes on the Horizon

There are proposed refinements to the current system and although some of the actual details have yet to be finalised, the main points affecting healthcare premises from 1st April 2008 are:

- The rate at which existing P&M already in the "pool" is claimed will reduce slightly from the current 25% to 20%.
- A new category of P&M is to be introduced where the plant is an integral fixture to the building. It will apply to heating including other fixtures and the like where they attract a 10% rate per annum on new expenditure incurred after 1st April 2008.
- Introduction of a new annual investment allowance (AIA), giving an annual 100% allowance for the first £50,000 of investment in P&M (other than cars) to all businesses regardless of size.

- There are increased incentives for rewarding the investment in energy efficient plant including certain mechanical and electrical equipment which meet efficiency targets. These Enhanced Capital Allowances (ECAs) are more valuable as they qualify for relief at 100% in year one, as opposed to the lower rates mentioned above.

## Time for a Check-up

With subtle changes to the capital allowance regime due next April, now is a good time to review all your property expenditure to ensure you take full advantage of the higher tax relief currently available.

Also, if no claim has yet been made on past expenditure, providing the equipment has not been replaced, it is probably not too late to claim the tax relief now.

If you are embarking upon a new-build, alteration or refurbishment, you should consider incorporating more energy efficient components qualifying for ECAs. The rewards could be higher tax savings and lower running costs – a double helping of relief.

For practices spending less than £50,000 each year, you should consider delaying the purchase of any equipment until after April 2008, as this would qualify for 100% capital allowances as opposed to the current first year allowance of 50%.

Richard Whittaker is a property tax consultant with Davis Langdon Crosher & James and has specialised in capital allowances on healthcare properties for the past 22 years. He can be reached by e-mail at richard.whittaker@crosherjames.com

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# Seasonal Gifts at Christmas and the Tax Implications

by Prakash Sookharry

### Vouchers

A common misunderstanding among practices is that vouchers can be given to staff tax free. Unfortunately, the Inland Revenue view these as being the equivalent of cash and are, therefore, subject to PAYE and National Insurance as a benefit in kind.

Benefits in kind should be declared on a P11D form for each member of staff and the practice will be required to pay employer's National Insurance on the benefit at 12.8%. Employees who receive a benefit in kind will then need to complete a tax return to pay the tax on this benefit. This can be a lot of administration and hassle for both the employee and employer when the amount of the voucher is very small.

Practices who wish to give vouchers and do not want the burden of completing P11D forms could arrange a PAYE Settlement Agreement (PSA) with the Inland Revenue.

### Christmas Parties

Practices can spend up to £150 per person on a Christmas party and this amount would be exempt for tax purposes. The Christmas party must be available to all members of staff and the total cost should not exceed £150 per head for those

attending. This amount includes staff and their spouses.

The £150 per head is an annual amount, therefore practices could provide staff with a Christmas party and a summer BBQ and there would be no taxable benefit as long as the total amount did not exceed £150 per head.

Where the cost of an event exceeds £150 per head, then the whole amount becomes taxable on the member of staff as a benefit in kind.

### Christmas Bonuses

Bonuses paid to staff, whether cash or cheque, need to be included on the payroll and PAYE and National Insurance is paid on them.

### Tax Free Seasonal Gifts

If you want to give a seasonal gift, you can give a turkey and a bottle of wine free of any tax.

However, gifts over and above the mentioned items, e.g. case of wine, hampers, etc. would be considered as benefits in kind and the value would need to be included on a P11D.

# Staff profile



### Name :

Luke Edward Kirkham

### Date and Place of Birth:

9th April 1978 at Chase Farm Hospital, Enfield (during a blizzard)

### Job Title:

Accountant

### When you were a child, what did you want to be when you grew up?

A train driver

### Give 3 words that describe you:

Quiet, methodical and quirky

### If you could invite up to 3 people to dinner (alive or dead), who would they be?

My wife, my mum and my grandad

### What won't you leave home without?

A clear head

### What is the last book you read?

Trace by Patricia Cornwell

### What is your secret vice?

Shopping

### What is your greatest ambition?

To make my children proud of themselves

### People would be surprised to know that...

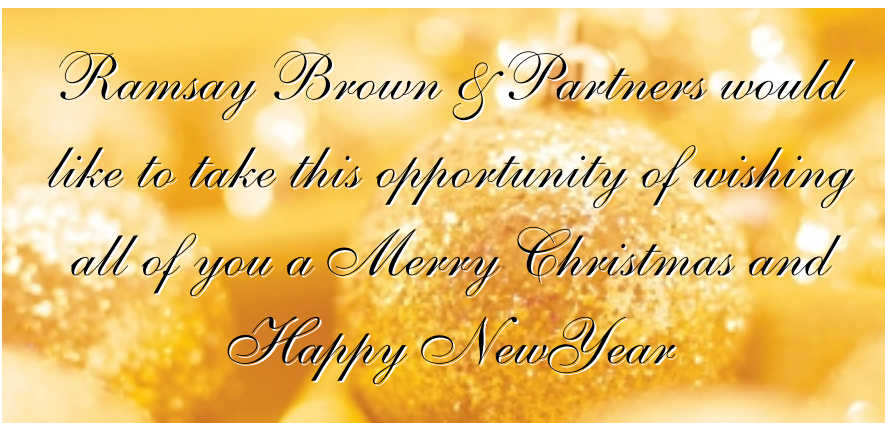
I have lost 6.5 stone in the last 5 months

### What is your favourite quote?

"Carpe Diem!" (Seize the day, lads. Make your lives extraordinary!)

### What is your favourite movie?

Gladiator



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