Ramsay Brown & Partners

GP News

Issue 6 - Spring 2008

MPIG – Minimum Practice Income Guarantee (or not!)

by Laurence Slavin

The recent 2008 Doctors and Dentists Review Body (DDRB) award makes interesting reading for GPs.

It says *"we recommend that the Global Sum payments…be increased by 2.7%… Because of the operation of the MPIG… most practices will not receive any increase in payment…"* How can this be and how can this be right?

There is always the danger that the passage of time dims the memory of the factors that led to the Minimum Practice Income Guarantee (MPIG) in the first place. In simple terms, the original Global Sum payments announced in the spring of 2003 were accepted as inadequate. A joint statement by the BMA and the NHS Confederation said *"Under the MPIG, the overall unprecedented level of investment in primary care will be supported by an income guarantee…this guarantee will continue as long as necessary."*

The difference between the Income Guarantee and the Global Sum is the Correction Factor. The 2008 DDRB award states *"the increase in the Global Sum will simply reduce their Correction Factor payments. However, those practices with a Global Sum above or close to their MPIG will receive an increase."*

Take a simple example:

Practice A

Present Position:	
Global Sum	£100,000
MPIG	£150,000
Correction Factor	£ 50,000

After the pay rise, the position will be:	
Global Sum	£102,700
MPIG	£150,000
Correction Factor	£ 47,300

i.e. no increase.

Take another example:

Practice B

Present Position:	
Global Sum	£100,000
MPIG	£101,000
Correction Factor	£ 1,000

After the pay rise, the position will be:	
Global Sum	£102,700
MPIG	£101,000
Correction Factor	£ Nil

Therefore, the only practices that will see an increase will be those with a small MPIG, typically rural or low deprivation practices with a lower than average history of meeting targets and exceeding claims. The deprived high achieving practices will see no increase at all.

The MPIG is a critical part of a GP's income. The Department of Health (DoH) issued Frequently Asked Questions (FAQs) on the MPIG in which they confirm *"there is a permanent commitment to the principle of this guarantee."*

The MPIG was not funded solely out of the DoH's finances; GPs had to contribute too. The Quality Preparation Payment was reduced in 2004/05 and removed for 2005/06. In return for the MPIG, there was no uplift in the global sum for 2004/05 and 2005/06.

The 2008 DDRB suggests a change in attitude to the concept of the MPIG. It may be no coincidence that, in the following week, the newspapers carried stories that the MPIG is widely expected to be phased out under a landmark review being conducted by Lord Dharzi due to report later this year.

The MPIG is not the icing on the cake; it is part of the cake. If it needs to be reconsidered, it can only be so at the same time as the core funding streams that led to the creation of the MPIG are also considered. The newspaper article suggested that one in ten practices would close without the MPIG. I do not think that is right; it will be much worse.

Major Reforms to Tax and Superannuation from 6th April 2008

by Jenny Stone

The recent budget means that there have been some major tax reforms, which were introduced on 6th April 2008.

Capital Allowances

From 6th April 2008, there were major changes to capital allowances that GPs claim for tax relief. Capital allowances are claimed in respect of "plant and machinery" purchased for use within the business. "Plant and machinery" for GPs means equipment, fixtures and fittings. Before 6th April, GPs claimed 25% writing down allowances and in the year of purchase, could claim first year allowances of 50%.

Since 6th April 2008, practices have been able to claim 100% of the cost of purchasing plant and machinery up to an annual investment limit of £50,000 per annum. The annual limit is per business and will, therefore, also include equipment purchased by individual partners.

The writing down allowance for plant and machinery purchased over the annual investment limit has reduced from 25% to 20%. For cars, capital allowances will be claimed based on 20% of the written down value for tax up to a maximum of £3,000 per annum.

Capital Gains Tax

Capital gains tax (CGT) has undergone a major reform with substantial changes which applied to individuals from 6th April 2008. If you sell a property after 6th April 2008, then the difference between the proceeds and original cost will be taxed at a flat rate of 18%. However, for business assets used in a GP's trade, "entrepreneurs' relief" will be available, which may reduce the gains liable to CGT by 4/9ths, resulting in an effective capital gains rate of 10%. To qualify for entrepreneurs' relief, the GP must have ceased his trade. This would include a partner retiring from a partnership. Therefore, if a practice sells their surgery premises and is moving to new leased premises, then entrepreneurs' relief would not be available as the business has not ceased.

A GP will be able to make claims for entrepreneurs' relief on more than one occasion up to a lifetime total of £1million of gains. Disposal of business assets after the lifetime limit will be chargeable to CGT at 18%.

Taxation of Non-Domiciled Individuals

Currently, individuals who are UK resident, but not domiciled in the UK, are able to claim tax in respect on their overseas income/gains on the remittance basis (i.e. the amount of money brought into the UK) as opposed to the arising basis (when the income is earned) which applies to UK domicile residents.

From 6th April 2008, once a non-domiciled UK resident has been resident in the UK for seven years out of the past ten years, they will need to declare all of their worldwide income and gains on an arising basis. If they continue to use the remittance basis for overseas income, then they will have an additional tax charge of £30,000. The tax charge will be imposed for each year that the individual wishes to declare overseas income on a remittance basis.

There will be a de minimis limit of £1,000, therefore if an individual has an overseas bank account and earns £100 interest, they can continue to use the remittance basis and will not be liable for the £30,000 tax charge.

Ramsay Brown clients who are non-domiciled will now need to ensure that they provide us with details of all earnings worldwide to be declared on their tax return, unless they wish to continue using the remittance basis and pay the £30,000 tax charge.

Filing Deadline Brought Forward for Tax Returns

The deadline for filing paper tax returns has been brought forward to 31st October, however, if your tax return is filed on-line, then the filing deadline will still be 31st January. Ramsay Brown clients should ensure that we have their unique tax reference (UTR) so that we can file their tax returns on-line.

If paper tax returns are filed after 31st October, then a £100 penalty will be payable.

Superannuation Contributions – Update of Tier Contribution for 2008/09

Since 1st April 2008, the rate of employee's superannuation for GP principals is based on how much they earn with a four tier sliding scale. For those GPs earning between £19,682 and £65,002, the new employee's contribution rate will increase to 6.5%. For GPs earning between £65,003 and £102,499, the new rate will increase to 7.5% and for GPs earning over £102,500, the rate will be 8.5%.

For salaried staff, the employee's rate has also increased, but is based on the rate for the full-time equivalent.

However, for 2008/09, the contribution rate you will pay will be based on the tier your earnings fell into in 2006/07 regardless of your actual earnings for 2008/09. For example, a GP may have been working full-time and earning over £103,000 in 2006/07, therefore the tier contribution rate for 2008/09 will be 8.5%. If they reduced their hours in 2008/09 and were only working part-time and say, had earnings of £60,000, they would still pay a contribution rate of 8.5% even though their actual earnings fall into the 6.5% tier. This is only a transitional arrangement for 2008/09.

The earnings cap was removed from 1st April 2008, however, the cap will still be applied to the added years payments for those GPs who started an added years contract before 1st April 2008 and were previously capped. For GPs who commenced an added years contract after 1st April 2008, the cap will not apply and the added years will be payable on all of their earnings.

It's Hard to Say 'Goodbye'

by Andrew Miscampbell of Blake Lapthorn Tarlo Lyons

General practice is being forced each year to become more and more business focused as the Government heaps one reform upon another and competition grows to the traditional general practice partnership model in the delivery of primary care. These external pressures are being reflected in greater internal pressures within partnerships.

The need to have an up to date Practice Agreement is well known, but it is now even more important than before not to rely solely upon collegiate spirit, professionalism and a sense of vocation to ensure the stability of any particular practice.

Any well-drawn Practice Agreement will include exhortations to the partners to perform well to ensure maximum reward for the partnership and will include provisions that allow for expulsion in the case of a breach of the Agreement. However, many Practice Agreements do not include what is colloquially known as a *"green socks"* clause, which is a clause that enables a partner to be expelled without cause (usually on the votes of all other partners, or a very substantial majority of them).

The problem with relying on expulsion clauses where reasons have to be given is that, save in the clear cut cases such as bankruptcy or gross breaches of fiduciary duty (such as theft), a partnership may find it difficult to act decisively.

Personality issues and issues of underperformance are notoriously difficult to resolve and the problem of proving fault under the Practice Agreement means that there is often no effective sanction. The moment that reasons have to be given, the door is open to litigation and dispute with all associated expenses, both financial and emotional. Advice from lawyers is very likely to be hedged about with the need to be cautious, leaving a partnership in a quandary as to how to act.

Many partners worry that, if a *"green socks"* clause is included in the Practice Agreement, it will be used in an unreasonable way. However, the need for unanimity between all other partners will, in almost all cases, be sufficient protection against arbitrary or greed induced use of the power to expel. Additional protection is also available through the anti-discrimination legislation in areas such as gender, religion, sexual orientation and age.

The existence of a *"green socks"* clause cannot replace the need for open and honest dialogue between partners if a partnership is to be successful. However, the existence of such a clause will provide a powerful incentive for partners to work together and it will provide a clear solution to problems that cannot be resolved in other ways. The management of performance and personality issues within a partnership is difficult in the absence of the right to expel without cause.

Although doctors have a very highly developed sense of vocation, this may not be enough to ensure that all partners *"pull their weight"* in the NHS of today and is unlikely to be enough in the NHS of tomorrow.

Andrew Miscampbell is a partner at Blake Lapthorn Tarlo Lyons. He has particular experience in the healthcare sectors and property issues facing partnerships and arising on joint ventures.

Our Website

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.

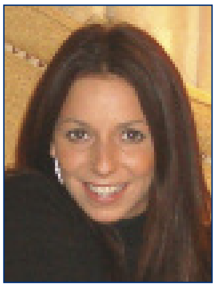
Accessing your tax liabilities
If we have prepared your tax return, we will have written to you detailing your tax liabilities.

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 on "view latest news area". A window will then appear asking for username and password, however, if you are not registered, click on "sign up for membership".

Tax Investigation Service (TIS)

by Emma Pottinger



As you may be aware, we provide a service exclusively to our clients to protect them against paying additional accountancy fees in the event of them coming under the scrutiny of an HM Revenue & Customs (HMRC) investigation.

Since the introduction of self-assessment, random audits now take place regularly. In April 2005, the Inland Revenue merged with Customs & Excise, which seems to have given them more power to increase the level of random investigations. Every individual and business is at risk of being investigated by HMRC. They collected further tax in over 80% of enquiries in 2005 and are looking to increase the tax yield to £3.6 billion within three years. Some taxpayers were unlucky enough to pay an average settlement of £20,000, which is why we offer this service in order to protect our clients from the cost of such investigations.

When you subscribe to our Tax Investigation Service, we are able to make a claim against our insurance policy held in respect of our fees incurred when we defend a client who is subject to either a full enquiry, an aspect enquiry, a VAT dispute or a PAYE and NIC dispute. You may or may not be aware that the accountancy charges for an HMRC investigation increases to currently £250 plus VAT per hour.

In the case of a limited company, the work includes dealing with investigation work into the company itself, together with the personal tax affairs of the key directors where those directors are also major shareholders. In relation to partnerships, the work covers the affairs of the individual partners and their share of the cost to the partnership.

If you are not covered by our service and would like the peace of mind in knowing that, if you were to be investigated, you would incur no further accountancy costs, please contact me by e-mail at **emma@ramsaybrown.co.uk** or you can call me on 020 8370 7724 and I will be happy to provide you with further details.

Digita Customer Services Award

For the past few years, we have provided an enhanced service to clients to access their tax information through our website or remote telephone links.

This was possible due to close collaboration with our tax software provider, Digita. This year, in recognition of this close partnership with Digita, Ramsay Brown and Partners were awarded a customer services award at their 2008 annual conference for the innovation and effort put into this by the key member of our tax team, Yogi Dhanak.

Yogi Dhanak receiving the Customer Services Award from Digita Systems' managing director, Jerry Rihll

Staff profile

Name :
Julia Patricia Hoad

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Job Title:
Secretary

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

Give 3 words that describe you:
Organised, flirty and fun

If you could invite up to 3 people to dinner (alive or dead), who would they be?
Simon Cowell, Richard Gere and Elvis

What won't you leave home without?
My mascara and lipstick

What is the last book you read?
Currently reading A Village Affair by Joanna Trollope

What is your secret vice?
Chocolate

What is your greatest ambition?
To pay off the mortgage, retire early and live by the sea

People would be surprised to know that …
I write poetry and erotic stories

What is your favourite quote?
"We do not stop playing because we grow old, we grow old because we stop playing"

What is your favourite movie?
The Bridges of Madison County

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Thanks to Julia Hoad for editing this newsletter.