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GP News

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How to Maintain a Financially Fit Practice for the Future

by Kate Perry

Are you struggling with your current cash flow? Are you finding that you are having to take a drop in drawings?

Many GPs are currently finding that, after two good profit years, finances are getting tight. With no potential annual uplift in sight, we are finding that GP income is levelling off or even taking a downturn.

With this being the case, being in complete control of your finances is essential.

Loss of Income

There was no uplift given for 2006/07 and there is no uplift for 2007/08, however, expenses will continue to increase.

The targets for the QOF are now much more difficult to obtain and 50 points previously relating to Access have gone completely, now leaving a maximum of 1000 points to achieve.

The majority of PCTs are struggling financially themselves and in order to keep costs down, some Local Enhanced Services which were previously available have now been cut.

PMS practices need to beware that there is also clearly a growth fund squeeze. Practices should review their contract regarding growth funding and ensure that they are still providing the services they originally agreed to when the growth funding was offered. Some PCTs are being particularly aggressive in this area.

Those of you who have GPs on the Flexible Career Scheme must keep in mind that this income is about to cease completely or you will only be receiving 10% this year at the most.

Increase in Expenses

Despite the fact that GP funds are clearly being cut, most expenses are going to continue to rise. The main cost of a GP practice is its staff and these people must be rewarded in order to ensure that their loyalty is maintained in what is becoming a more pressurised environment.

Other costs are also increasing, such as postage, to invite patients in and send out reminders. Printing costs are also increasing as more information is printed out.

Trouble with Cash Flow

More recently, practices may have already suffered a cash flow difficulty. March is the time when the superannuation shortfall for the previous year is deducted. Unfortunately, this tends to be deducted before the QOF achievement is received causing, in some cases, significant cash flow problems.

How to Survive the Current Climate

There are several ways in which you can protect your practice from a potential fall in profits:

- Review expenses – it is worth shopping around for other suppliers, particularly telephone, gas and electricity, as some good savings can be made in this area. Keep an eye on stationery expenditure as costs can escalate here.
- Review the work that is carried out by your current staff - are they all working in the area that suits them best? Sometimes just moving staff to different areas in which they are happier can create efficiencies.
- Produce a budget – this can help restrict your costs during the year.
- Increase your list size – consider bidding for local vacant lists, expanding your area or advertising. Be careful, however, as this may have a detrimental effect on your QOF points.
- Aim to achieve maximum QOF points and maximise on the enhanced services being offered.
- Review your private fees – is everyone aware of the current charging levels and what should be charged for and what should not?
- Consider other outside sources of income – private nursing homes or market research. How seriously has your practice considered offering services to Practice Based Commissioning (PBC)?
- Produce a cash flow forecast – this can help plan ahead. With the new contract, it is much easier to predict income and a simple spreadsheet can give a good idea of any future potential cash flow problems.
- Review your monthly superannuation deductions - ensure that the PCT will not have over deducted your superannuation by the end of the year. Superannuable profits may be less in 2007/08 than they were even in 2005/06. Remember that you can ask the PCT to alter the deductions at any time during the year, so review the position after your next set of accounts and superannuation certificates have been prepared.
- Consider reducing your tax payments on account if you know that practice profits have fallen, but do get advice.
- Review partners' drawing levels – unfortunately, sometimes drawings do need to be cut compared to previous high levels. This will never be a popular decision but it will avoid problems with the bank.
- Review working capital levels – these may need to be increased with the current uncertainty to ensure that the bank does not accidentally go into overdraft.
- Are you about to employ a salaried GP? You may want to reconsider a partner, rather than lock the practice into to a high fixed salary. If there are reduced profits, a profit sharing partner will receive a reduced income along with all the other partners.

The future looks very uncertain with regard to practice income but, with a few simple but effective changes, you can ensure that your practice is fighting fit for the future.

Checklist

- Review your suppliers, telephone and utilities in particular
- Review your staffing levels
- Produce a budget and a cash flow forecast
- Increase your list size
- Maximise QOF and enhanced services
- Review your private fee charges
- Look at other outside sources of income – consider providing PBC services
- Review your monthly superannuation deductions and tax payments on account
- Review partners' current drawing levels and working capital levels
- Consider a new partner rather than a salaried GP

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Keeping More of your Hard Earned Income

by Kevin Quinn

Understandably, most of us are keen to legitimately avoid paying income and capital gains tax where possible and one of the most effective ways of doing so is to take advantage of the various tax efficient savings schemes currently available.

However, while the use of these schemes can sometimes result in significant tax savings, tax planning should be consistent with an investor's financial and lifestyle objectives and not dictate them.

This is because, generally, there is a price to be paid for significant tax savings in terms of investment risk and accessibility. Essentially, it is important to ensure that the *"tax tail does not wag the investment dog"*.

To help illustrate the point, I have outlined below some of the tax benefits, risks, restrictions and wider potential financial planning uses for a few of the more popular tax efficient savings schemes currently available.

National Savings Certificates (NSCs)

NSCs are considered to be very secure as they are backed by HM Treasury and the nominal value cannot go down. Although no tax relief is offered on the initial investment, returns are exempt from income tax and capital gains tax (CGT). Fixed and index linked certificates are offered, but contributions are restricted to a maximum of £15,000 per investor per issue.

Despite the tax advantages, NSC rates are not always competitive when compared to higher rate bank/building society cash deposit accounts, so it is prudent to consider the alternatives before investing. However, index linked certificates can prove useful when planning for known future capital expenditure, such as education funding.

Individual Savings Accounts (ISAs)

Investors can pay up to £7,000 per tax year into ISA plans and although no tax relief is given on the initial contribution, ISAs provide a lifelong shelter from which tax free income and capital withdrawals can be made.

It is possible to invest in a range of asset classes including cash, UK and overseas equities, property and fixed interest securities. This provides flexibility to build a balanced portfolio geared around your personal risk profile and objectives.

Due to their flexibility, ISAs have a wide range of potential financial planning uses and are likely to appeal to GPs of all ages. For example, they can be used to help save for a deposit for a property purchase, pay for children's education fees, boost retirement provision or repay mortgage debt.

Personal Pension Plans (PPPs)

Following the introduction of new pension legislation on 6th April 2006, there is now scope for many GPs to make significant investments into PPPs alongside their NHS pension contributions and claim tax relief on all payments. This is because tax relief of up to 40% is now available on pension contributions up to the higher of £3,600 gross, or 100% of relevant earnings each tax year subject to an annual allowance cap, which is £225,000 for the 2007/08 tax year.

PPP funds grow in an environment free of CGT and inheritance tax (IHT) and at retirement 25% of the fund can be taken as a tax free cash sum. However, the balance must be used to either purchase a pension for life or from which to take variable withdrawals.

PPPs will be of particular interest to GPs who are keen to boost their retirement provision and want increased flexibility at retirement.

Enterprise Investment Scheme (EIS)

An EIS is a direct investment into the new shares of an unquoted trading company, which satisfy certain criteria regarding size and type of trade carried on. In return for keeping the shares for a minimum of three years, investors receive a number of tax benefits. These include 20% income tax relief on investments up to £400,000 per tax year and exemption from CGT for any gains made on qualifying shares. However, unlike Venture Capital Trusts (VCTs), EIS dividends are not tax free.

One of the most useful EIS tax breaks is the ability to defer CGT on gains made from other assets by reinvesting all or part of the gain into an EIS either one year before, or three years after the gain occurred. Coupled with income tax relief, a total tax saving of up to 60% can be achieved.

As an EIS is an investment into single (often unquoted) companies, it is generally considered to be high risk and illiquid, as the only way investors are likely to be able to realise their investment is if the directors achieve an exit by way of a market flotation, trade sale or share buy back.

In the context of financial planning, an EIS is certainly worthy of consideration for GPs who have or are likely to incur large capital gains, for example, when selling surgery premises or share portfolios, as the combination of CGT deferral and income tax relief helps to compensate for the investment risks.

Venture Capital Trusts (VCTs)

A VCT is essentially a small portfolio of, typically, between 30 and 50 smaller companies that would qualify under an EIS, however the tax advantages are different.

Investments of up to £200,000 per tax year into new VCT shares qualify for 30% income tax relief regardless of the tax status of the investor. Dividends and capital profits can be distributed free of tax and any gains made on disposal are free from CGT. However, unlike an EIS, VCTs do not offer CGT deferral relief.

VCT shares must be held for a minimum of five years, otherwise the income tax relief will be clawed back.

As with an EIS, given their focus on "smaller" companies, VCTs are generally considered to be high risk and illiquid investments. However, as part of a diversified portfolio, a VCT can help to reduce volatility, as VCT shares will not necessarily react in the same way as other investments in similar market conditions.

Although there are some schemes that aim to return investors' gross subscriptions shortly after five years, VCTs should generally be viewed as longer terms investments, i.e. ten years plus. Amongst others, they can, therefore, prove useful for GPs who are looking to boost retirement provision, set aside money to pay for children's future college/university fees, or who perhaps wish to make a provision for the repayment of long-term mortgage debt.

Summary

The above is by no means an exhaustive list of the tax efficient savings schemes currently available and there are others also worthy of consideration, such as Enterprise Zone Trusts (EZTs).

However, the schemes mentioned do highlight the need to look at tax efficient savings plans in the context of an overall financial planning strategy that encompasses the investor's attitude to risk and wider financial and lifestyle objectives.

Donating to Charity

by Laurence Slavin

In the past, the most common way to give money to charity was to set up a deed of covenant which had to be capable of lasting at least four years. These deeds of covenant are still used and the charities like them, as it gives them a committed income for a period of time, however, the rigidity does not necessarily suit the donor.

In recent years, a number of easy and flexible ways to give money to charity have developed, which also provides the donor with a variety of tax reliefs. This article looks at the various options available to GPs, not only for themselves but for their staff. A point to mention early is that some thought should be given to whether the GP or their spouse should be making the donation to ensure that the higher rate taxpayer makes the donation in order to maximise the tax relief available.

Payroll Giving

This is a scheme which allows deductions to be made from a gross salary before the calculation of the tax. A member of staff paying the basic rate of tax could deduct £10 per month and their net pay would only suffer a reduction of £7.80. This can either be a monthly deduction or a one-off payment. The employee just needs to choose their charity and the amount of the gift. Since GPs are mostly self-employed, this is more suitable for the staff rather than the partners. For more information on setting up a scheme look at
www.inlandrevenue.gov.uk/payrollgiving

Gift Aid

This is available to all taxpayers. The donation you make is deemed to be made net of basic rate of tax so that the charity can reclaim the tax themselves. If the individual is a higher rate taxpayer, they can obtain tax relief on the difference between the basic rate and higher rate. For instance, a donation of £100 is deemed to have had 22% tax deducted, so the gross equivalent as far as the charity is concerned is £128.21. The charity can reclaim the £28.21 from HM Revenue & Customs (HMRC). The individual can get an additional £23.08 tax relief (the difference between 40% higher rate tax and 22% basic rate tax), making the net cost to the individual just £76.92.

Giving Shares

An individual can donate shares they hold to a charity and claim tax relief against the value of the shares. For example, if an individual gives shares worth £20,000 to a charity, the net cost for the individual would be £15,600 for a basic rate taxpayer and £12,000 for a higher rate taxpayer. The individual claims the tax relief by including details of the donation on their self-assessment tax return.

Leaving a Bequest in your Will

Any individual can leave money to their charity of choice in their Will. The donation is treated as free of inheritance tax, which reduces the amount of inheritance tax payable by an estate and the charity receives the donation in full. This bequest is usually prepared with the help of a solicitor when the Will is drafted.

Charitable Trusts

A charitable Trust is a legal entity that can be set up by any individual who wants to benefit a charitable cause. In fact, it does not require a significant initial investment and once set up, it can receive money from the various routes mentioned above. The usual model is that a donor (the settler or giver) transfers money into a charitable Trust which is run by the Trustees (often the donor and their family/business associates/friends) for a charitable purpose. These details are all set out in the Trust Deed. The Charity Commission supervise the running of the Trust. You would need the help of a solicitor to establish the charitable Trust and you would then also need to have annual accounts prepared for the Trust. You can also get valuable advice from the Charity Commission website at
www.charity-commission.gov.uk.

Using a Charity Account

A simple and flexible method of giving to charity is to use a charity account, such as the one operated by the Charities Aid Foundation. The individual sets up a bank account and transfers money into the account. The transfer is treated as a charitable donation and the tax that is deemed to have been deducted at source is added to the account. Effectively, the account holds the gross equivalent of the donation and you can write cheques and make transfers from this account. The charity receiving the donation from the charity account receives the gross payment and a higher rate taxpayer can claim tax relief on the difference between the higher rate of tax and the basic rate of tax in the same way as gift aid.

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Budget 2007 – Highlights

by Jenny Stone

Income Tax

- Income tax is to be cut by 2%. From 2008/09 onwards, the basic rate tax band will be reduced from 22% to 20%, however, the starting rate of 10% will be removed for earned income.
- In respect of National Insurance contributions, from 2009/10, the upper earnings limit (Class 1) and upper profits limit (Class 4) will be aligned with the income level at which higher rate income tax is payable.
- From April 2007, the lower earnings limit for National Insurance will be £4,524. Individuals who pay their spouse a salary can increase this to £377 per month.

Corporation Tax

- The small companies' rate of corporation tax, applying to companies with profits under £300,000, will increase from 19% to 20% with effect from 1st April 2007. It will then be increased to 21% from 1st April 2008 and to 22% from 1st April 2009.
- Companies with profits of between £300,000 and £1.5m pay corporation tax on the first £300,000 at the small companies' rate. Profits over £300,000 are taxed at the marginal rate, which is currently 32.75%.
- The main rate of corporation tax for companies with profits over £1.5m will reduce from 30% to 28% with effect from 1st April 2008.

Capital Allowances

- The first year allowances of 50% for small businesses investing in plant and machinery has been extended for a further twelve months to 6th April 2008.
- From 2008/09, the rate of writing down allowances for plant and machinery will be reduced from 25% to 20%.
- From 2008/09, the rate of writing down allowances on certain fixtures integral to buildings will be reduced from 25% to 10%. This will be a new pool from 6th April 2008, so anyone wishing to make a back claim in respect of property related capital allowances must do so before this date.

Capital Gains

- The capital gains annual exemption for individuals in 2007/08 is £9,200.

Inheritance Tax

- The inheritance tax nil rate band threshold will be set at £300,000 for 2007/08 rising to £350,000 in 2010/11.
- The rate of tax over and above the nil rate band is still 40%.

VAT

- The annual taxable turnover threshold, which determines whether a person needs to register for VAT, will increase to £64,000.

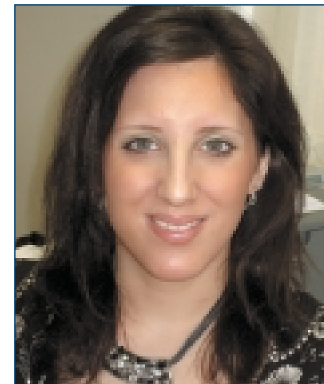
Tax Return Filing Deadlines

- From 2007/08, the new deadline for filing paper tax returns will be 31st October following the tax year so, for the tax year 2007/08, the deadline will be 31st October 2008. For tax returns filed online, the date will remain 31st January 2009.

Individual Savings Accounts (ISAs)

- The maximum amount which can be invested in an ISA will increase from 6th April 2008. The amount that individuals can invest in a mini cash ISA will increase from £3,000 to £3,600 and a maxi stocks and shares ISA will increase from £7,000 to £7,200. The amount that an individual can invest in a mini stocks and shares ISA will decrease from £4,000 to £3,600.

Staff profile



Name :
Lilla Concadoro

Date and Place of Birth:
Enfield, 27/6/81

Job Title:
Accounts Administrator

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

Give 3 words that describe you:
Kind, helpful and happy

If you could invite up to 3 people to dinner (alive or dead), who would they be?
David Beckham, Justin Timberlake and my Grandad

What won't you leave home without?
My mobile phone

What is the last book you read?
Secrets of the Baby Whisperer

What is your secret vice?
It's a secret

What is your greatest ambition?
To travel around the world

People would be surprised to know that …
I can play the trumpet

What is your favourite quote?
I haven't got one

What is your favourite movie?
Bridget Jones' Diary

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