DOCTOR & GP's UPDATE

Summer 2017

Bishop Fleming

Accounting and tax update for GP's and Practice Managers

INSIDE:

Tax changes dropped ahead of the general election

Major tax changes that were announced in the Spring Budget have been dropped by the government, due to a lack of time to pass them into law ahead of the 8 June General Election.

With 135 clauses, 29 schedules and 776 pages, Finance Bill 2017 was the largest on record, containing a number of key tax changes on personal and corporate tax. With a snap election called, Parliament did not have the time to scrutinise the detailed legislation and so it had to be shelved for now.

The Finance Bill was shortened to just 63 clauses, 11 schedules and 156 pages, and received Royal Assent before Parliament dissolved on 3 May.

Whether the changes that were dropped will re-emerge after the election in a new Finance Bill, and in what form, remains to be seen. Any re-introduction of a measure that has been dropped may now be from a different date to that previously planned.

Key proposals dropped include: Making Tax Digital, the reduction in the dividend allowance and changes to the non-dom rules. Proposed rises in probate fees were also shelved for now.

Making Tax Digital

Making Tax Digital will require businesses to keep their records in a digital form, including spreadsheets, and file quarterly updates to the tax office, with a fifth and final clearing up return after each tax year end.

The regime was meant to start for unincorporated businesses and landlords with a turnover above £85,000 (the VAT threshold) from April 2018, with smaller businesses joining a year later, and companies in 2020.

There has been blanket criticism of the project, with nearly all calling for it to be delayed by at least a couple of years.

As Making Tax Digital has now been dropped, for the moment at least, there is time for an in-coming government to re-appraise the proposals and take on board the various representations that have been made. The tax office will, in the meantime, continue a pilot exercise with selected businesses over a two year period to identify and iron out any issues.

We won't know until after the election whether significant changes will be made to the rules and whether they will be delayed. It is worth noting that the previous Chancellor – George Osborne – was the architect of tax digitalisation, and with him no longer in government or even an MP, there is some likelihood that it will not proceed as originally planned when it is re-introduced in a subsequent Finance Bill.

Dividends

Another Spring Budget surprise was the proposed reduction in the dividend tax allowance from April 2018. Where a GP receives dividends on shares, the first £5,000 in 2017/18 is taxed at 0%. The intention in the Budget was to reduce the 0% band to £2,000 from 2018/19. However, following the general election announcement, this was dropped to ensure the Finance Act received Royal Assent. This may, however, be restored by the new government. A reduction in the allowance to £2,000 would mean extra tax of £225, £975 or £1,143 a year depending on whether the recipient pays tax at the basic rate, higher rate or additional rate.

Probate fee rise

Controversial plans to increase probate fees were shelved due to the election. They had been set to rise in May 2017 from as little as £155 up to as much as £20,000 for some estates in England and Wales. The proposals had been dubbed a "stealth death tax".

Non-domicile rules

Some UK residents from overseas were due to have their tax status changed from 6 April

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2017, and had already planned around the new regime. But with the changes dropped, this leaves them in limbo, awaiting the outcome of a second Finance Bill.

The changes would have meant that a non-domiciled person who had lived in the UK for 15 out of the last 20 years would no longer have been able to use the remittance-basis, meaning they would have been liable to UK tax on all their income and gains wherever they arose in the world.

The changes would also have meant that someone born in the UK, but who later acquires a domicile of choice outside the UK, would likely remain liable to UK tax on all their worldwide income and gains, whenever they returned to the UK.

Two key areas where action may have already been taken by affected non-domiciles that may be problematic if the proposals are not reintroduced with an effective date of 6 April 2017, are asset rebasing, and cleansing of foreign bank accounts.

Employee benefits

An increase in the tax-free allowance for employer-funded pension advice is another casualty of the truncated Finance Bill. The allowance was due to increase from £150 to £500 per employee on 6 April. The increase has been scrapped.

A new Pension Advice Allowance, allowing people to withdraw £500 on up to three occasions from their pension pot to pay for financial advice has not been changed.

Pensions

From 6 April 2017 pension savers aged 55 and over were due to have their Money Purchase Annual Allowance (MPAA) cut from £10,000 to £4,000. This change has been scrapped.

People saving for their retirement can invest £40,000 a year into a pension, whilst those aged 55+ have a restricted £10,000 MPAA. The proposed change had been to prevent people withdrawing money from their pension pot and recycling it back in again, gaining more tax relief on the sum.

We shall have to see if the measure is re-introduced in a subsequent Finance Bill, and from a new date.

Other measures dropped

Other changes dropped for the moment include termination payment changes from April 2018 and corporation tax changes to carried forward losses from April 2017.

Measures going ahead

Some measures did make it into the final version of the Finance Bill, including changes to IR35 rules in the public sector, and salary sacrifice restrictions.

Despite the 'Making Tax Digital' delay, there are advantages to adopting digitalisation and the latest cloud-based accounting software.

Our solution has been specifically designed for Practice Managers and GP's, providing financial clarity in 'real time' as well as preparing practices for a smoother transition to HMRC's 'digital tax revolution' when the time comes.

For further information, please contact:

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The GP Seniority Clawback 2013/14

Seniority payments continue to be phased out with the seniority scheme itself ending on 31 March 2020. In the meantime, GPs should continue to check their individual positions for potential clawbacks.

The average superannuable income figures in England for 2013/14 have recently been published. The final figure (after deducting average seniority payments) is £88,724. This is down on the interim figure for 2013/14 of £96,183.

Where a GP's superannuable income is less than 2/3rds of the national average (£59,150 for 2013/14), there will be a 40% clawback of 2013/14 seniority payments where the GP had originally received 100% of their 2013/14 seniority entitlement. If it is clear a clawback will be due, consideration should be given to making a provision in the practice accounts and tax return.

It is particularly important to understand the position of partners who have retired since 2013/14, because clawbacks are taken from the practice, not the individual. If funds have not already been reserved for such an eventuality, financial arrangements with retired partners should be discussed as a matter of urgency.

For more information please contact

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Rise of the practice merger

The GP marketplace has always been highly fragmented in the past and, historically, the incentives for any form of practice merger have not been attractive. That is now changing.

With the advent of PMS contracts and the Alternative Provider Contract, there is increasing competition and a realisation that larger combined practices can offer a wider, cheaper range of services with more flexibility. Larger practices are better placed to offer new services and development of their people.

We are therefore seeing an increasing number of GP clients and contacts considering a merger, and whilst these can be complex once-in-a-lifetime transactions, our team of corporate finance specialists are highly experienced in advising businesses on their growth or exit strategies.

Whether you are a GP wishing to exit practice, or a larger practice requiring advice on a potential a merger, please contact:

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Key aspects of the 2017/18 GP contract

Although this list is not intended to be comprehensive, the following is a selection of some of the things to look out for:

Professional Indemnity costs

Most practices should have received in the last couple of months a payment of 51.6p per unweighted patient, based on patient lists at 1 December 2016, to offset against increasing indemnity costs of GP's working at the practice, including non-partners.

Seniority

Clawbacks for 2013/14 can now be expected to be processed where 100% of Seniority entitlement was paid in 2013/14, but final pensionable income fell below two thirds of national average. National average figures were recently published – see our separate Seniority article.

CQC fees

A claim can be made for reimbursement in full for 2017/18 fees.

Superannuation rates 2017/18

Employee contribution rates remain unchanged. Employer's superannuation has increased by 0.08% to 14.38%. The additional amount is to cover NHS administration costs.

2016/17 GP pensionable income certificates

The certificate template is hoped to be available by the end of summer / early autumn. Technical issues caused by changes in pension regulations caused a delay last year.

GP sickness cover reimbursement

- Can be claimed for GP absences over two weeks, up to a maximum of £1,734.18 per week.
- Each QOF point increased to £171.20 from £165.18.
- Global sum increased from £80.59 to £85.35 per patient. The increase, in part, takes account of the Avoiding Unplanned Admissions DES that ceased on 31 March 2017.

Self employed? Take care not to overpay your NICs

The spring Budget was somewhat overshadowed by the subsequent U-turn on rises in Class 4 National Insurance Contributions (NICs) for the self-employed.

Whilst the Chancellor had wanted to increase Class 4 by 1% in April 2018 and a further 1% in April 2019, taking the rate up to 11%, he was forced (for now) to abandon the idea, though we should probably expect it to return sometime in the near future. For the moment it remains at 9% on profits up to £45,000 and 2% thereafter.

Class 2 NICs have increased by 5p to £2.85 per week, though are on target to be abolished in April 2018.

For 2017/18, the Income tax personal allowance rose by £500 to £11,500, and the 20% tax band was extended by £2,000 to £45,000. Higher rate tax of 40% is now charged on incomes between the £45,000 threshold and £150,000, with a 45% rate thereafter.

If a GP has employed and self-employed income, care should be taken when preparing tax returns to ensure NICs are not paid over the maximum set out by legislation. Depending on income levels, class 4 contributions can be reduced where class 1 employed contributions have been paid.

Bishop Fleming's full Budget report and tax tables can be downloaded from: www.bishopfleming.co.uk/budget-2017

"Mexican standoff" over locum pay

NHS watchdogs have backed down in a row with locum doctors, performing a u-turn over new tax rules.

The NHS, like other public bodies, is having to grapple with new rules introduced from 6 April 2017 that force it to judge whether any third party contractors they engage are caught within the "IR35" rules, designed to tackle disguised employment.

Before April, individuals providing their freelance services to the NHS through their own companies could decide for themselves whether the rules applied - but have now lost this say on their employment status.

But the NHS has effectively now been saddled with a task for which it has no prior technical knowledge or expertise. IR35 is a complex set of rules concerning employment status that have evolved under case law over the last 100 years. To help with the task of determining employment status, the tax office has provided an online status tool.

The complexity of the rules led NHS managers to 'play it safe' and deduct PAYE and NIC in most circumstances, in accordance with guidance from the regulator, meaning many contractors felt unfairly taxed.

This led to a backlash from locum doctors, threatening to withdraw their services unless they were compensated with increased pay to offset the tax. In addition, there had been legal threats from unions representing locum doctors and nurses.

The NHS regulator has now been forced to perform a U-turn on its earlier guidance.

NHS Improvement has issued new guidance advising trusts to examine each case on an individual basis, before deciding whether agency workers were caught by IR35.

Earlier this year locum doctors were warned that they could be struck off if they cancelled shifts in an attempt to force the NHS to pay them more.

The General Medical Council issued guidance after agency workers threatened to cancel shifts at late notice, in what was dubbed a "Mexican standoff" over rates of locum pay.

This is an ongoing issue, and we will keep an eye on how it develops.

Pensions update

Whilst the spring 2017 Budget did not make any changes to the pension annual allowance or lifetime allowance, the following issues need to be borne in mind:

Tapering of pension annual allowance: Tax returns that are to be completed over the coming months for the 2016/17 tax year, will need to take account of any tapering of the £40,000 annual allowance to as little as £10,000, dependent on income levels.

Lifetime allowance: This has been significantly reduced in stages over recent years to £1m (from 1.8m in 2011/12). There is some good news, however, in that the allowance is planned to be increased again by the consumer price inflation from April 2018. With inflation currently rising, the increase might be more than previously expected.

Pension annual allowance: As mentioned above, the annual allowance remains at £40,000. With inflation rising, this is likely to take more GPs over the threshold as pension values rise more rapidly. A tax charge on any excess in the current 2017/18 tax year is likely to be felt in January 2019, when balancing tax payments are made for 2018/19

For further information, please contact
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