STARTING A PRIVATE PRACTICE

# Darling's duds of May – how Budget demolishes your finances

Doctors new to private practice, and the well-established, will be hurt badly in the months ahead by Chancellor Alistair Darling's pre-Budget report. Ian Tongue sifted through the small print for this quick round-up of key areas for independent practitioners to be aware of

THE REAL medicine to cure this country's financial woes will probably not be dispensed to the nation until after the forthcoming general election.

For now, Mr Darling's key plans relate to increased National Insurance (NI) contributions from 2011-12 and he confirmed changes relating to tax relief on pension contributions.

His pre-Budget report late last year gave us few surprises as measures affecting doctors this year had been previously announced.

### Recap on main 2009 Budget announcements

- A new income tax rate of 50% applies from 6 April 2010 for earnings in excess of £150,000. Start budgeting from income by May.
- Abatement of personal allowance for those earning more than £100,000 from 6 April 2010.
- Restricted tax relief on pension contributions from 6th April 2011 for those earning more than £150,000.
- 0.5% increase to (NI) contributions on all classes from 6 April 2011 (announced in the 2008 Pre-budget report).
- Furnished holiday lettings no longer treated differently from other investment property from 6 April 2010.

### Summary of the key announcements in the 2009 pre-Budget report

- All NI contribution rates, employers, employees and self-employed, are to rise by a further 0.5%. This is in addition to the earlier announcement which will mean a total 1% increase on all classes of contributions with effect from 6 April 2011.
- Personal tax allowances and thresholds will be frozen at 2009-10 levels, effectively pushing more income into the 40% tax band.
- The individual inheritance tax allowance will remain frozen for the next tax year at £325,000.
- The small company rate for corporation tax remains at 21%.

### Pension restrictions

From 6 April 2011, it is proposed that for those whose total income is in excess of £150,000 (including your employer's pension contributions) tax relief on pension contributions will be abated.

The removal of the higher-rate tax relief will be made within the £150,000-£180,000 income band on a sliding scale with only basic-rate tax relief on pension contributions for those with total income over £180,000.

The pre-Budget report has given a small concession in calculating whether you are subject to the above. If the total income is below £130,000 after adding employee contributions and gift aid to the gross income, then no restriction will apply, whatever the level of employer's contributions.

If you consider the above may affect you, please speak to your financial adviser.

> "The proposed income tax and National Insurance changes will result in more tax being suffered if no action is taken"


### National Insurance

National Insurance contributions will rise across all classes from 6 April 2011.

For the typical hospital consultant with an NHS salary and private practice, this results in the following increases:

- **NHS Salary** – increase of 1% on earnings above the NI threshold level, currently £5,720 p.a. The effect for salary of £100,000 is £943 p.a. additional NI.
- **Private Practice** – increase of 1% on all earnings.

The effect for a private practice of £50,000 net profit is an additional £500 p.a.

### Consultant earning £90,000 NHS salary and private practice net profit £50,000

● **From 6 April 2010 (tax year 2010-11):**

- Personal allowance lost – increased income tax of £2,590.

● **From 6 April 2011 (tax year 2011-12), in addition to the above:**

- Additional NI on salary of approximately £843;
- Additional NI on private practice of £500. The combined effect from 6 April 2011 is approximately £3,933 worse off a year.





### Consultant earning £100,000 salary, private practice net profit of £100,000

● **From 6 April 2010 (tax year 2010-11):**

- Personal allowance lost – increased income tax of £2,590;
- 50% tax on earnings above £150,000 – increased income tax of £5,000.

● **From 6 April 2011 (tax year 2011-12), in addition to the above:**

- Additional NI on salary of approximately £943;
- Additional NI on private practice of £1,000;
- Possible restriction on pension contribution tax relief (cannot be quantified in this example).

Combined effect from 6 April 2011 is a minimum of £9,533 worse off a year.

### What can be done?

The answer to this will depend on your personal circumstances and your accountant will be able to assess your individual needs. Possible ways of mitigating or possibly extinguishing the additional tax are:

- Incorporating (creating a company);
- Forming a partnership;
- Transferring assets to your spouse/civil partner;
- Increase salary/pension contributions to your spouse/civil partner/partner (assuming they are involved in the business);
- Maximise your ISAs;
- Consider other investments – for example, Venture Capital Trusts or Enterprise Zone Trusts;
- Tax schemes, but care must be exercised!

### Furnished holiday letting

From 6 April 2010, the tax rules change for properties let as furnished holiday accommodation. In the past, these properties were given favourable tax relief as a 'business' allowing any losses to be offset against other income, thereby allowing tax relief on the losses.

This favourable treatment is withdrawn from 6 April 2010 and therefore any losses incurred can only be offset against other property-related profit from rental. Losses are carried forward and cannot be offset against any future capital gains tax.

Another change was to allow losses made on furnished holiday letting outside the UK, provided that the property is situated in the European Economic Area (EEA). This only applies up to 5 April 2010; however, retrospective claims can be made.

If you are affected by these changes, discuss your circumstances with your accountant without delay.

### VAT

The pre-Budget report has confirmed the temporary reduction in the standard rate of VAT to 15% would cease from 1 January 2010, when it reverted back to 17.5%. VAT-registered doctors should ensure their systems are amended to reflect the change for invoices raised on or after 1 January 2010.

If you are using 'cash accounting' or the 'flat rate scheme' for VAT, it is advisable to discuss the changes with your accountant to ensure your systems are compliant with the changes.

The proposed income tax and NI changes will result in more tax being suffered if no action is taken.

In many cases, a combination of measures can reduce this additional burden and therefore you should discuss your circumstances further with your accountant to ensure any appropriate tax planning measures are adopted.

■ **Next month: How to prepare a business plan**

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