STARTING A PRIVATE PRACTICE

Shield your gains from the taxman

Doctors with a private practice often do not fully understand capital gains tax (CGT) because they do not encounter it as frequently as income tax. But it is still important to know about, as Ian Tongue explains

CONSULTANTS, WHETHER starting out or established, can often find themselves paying capital gains tax (CGT) and, sadly in many cases, far more than they need to. Advanced planning could significantly reduce the amount they need to shell out.

One of the most common areas where CGT is paid by consultants and private GPs is in relation to residential property.

This could be a property held as an investment or perhaps the family home which was retained when they bought their next property. But there are other common areas where CGT may be payable too.

The basics

CGT is mainly payable where you make a gain on an asset through sale or transfer. This is different to receiving income from an asset which is subject to income tax.

CGT was 'simplified' from 6 April 2008, making the calculation more straightforward. The new calculation basically takes the selling price, deducts the cost, and charges the resulting gain at a flat rate of CGT.

Each individual has an annual tax-free allowance for CGT, which for the current year is £10,100.

The excess chargeable gain over your annual allowance is subject to CGT, which is charged at the following rates:

- Basic rate taxpayers: 18%
- Higher/additional rate taxpayers: 28%

Residential property disposal

It is common for senior doctors to have property in addition to their family home. If you have previously lived in a property, relief from CGT should be given for the period that you lived in it, plus an additional three years.

This is known as private residence relief. Therefore, if you leave your former home to perhaps relocate, then you usually have at least three years before CGT will become an issue.

If you rent out your former home, a further relief is available known as residential letting relief, which can be worth up to £40,000 each, for a jointly owned property. This level of the relief depends on how much the gain is and the level of private residence relief available.

So, for the majority of doctors, it is unlikely that CGT will be too much of an issue if you sell your former home within four to five years of leaving it – unless it is in a property hotspot.

A residential property which has never been lived in by you is subject to CGT without any of the relief described above. For example, a property which cost £200,000 and sold for £300,000 would have a gain of £100,000 before deducting any annual allowance.

There are certain exceptions to receiving private residence relief on your home. But these are usually limited to properties with large grounds or where part of the property was used exclusively for business purposes.

Commercial property

Disposals of commercial property are given more favourable treatment, particularly if they have been used in your business or if you are buying a new qualifying property – for instance, when buying a bigger home.

Frequently, gains can be 'rolled over' into other qualifying property, but this is a complex area and therefore should be discussed in detail with your accountant first.

Entrepreneurs' relief

At the time of simplification, a new relief was introduced called 'entrepreneurs relief'. This was introduced because under the old regime there were reliefs available for business assets. The most common areas where this is used is in the sale of commercial premises used by your business or selling/winding-up of a company that you may be using in your private practice.

When it came in, entrepreneurs relief was up to £1m on a lifetime basis, but this increased to £2m and was further raised from 23 June 2010 to £5m.

The benefit of this relief is that, if the criteria are satisfied, the gain made after annual allowances is subject to an effective CGT rate of 10%. This now represents an 18% reduction for a higher/additional rate taxpayer.

Again, the rules and criteria around using entrepreneurs relief are complex and therefore you should discuss your intentions with your accountant well in advance of any decisions being made.

Quoted shares

If you own a significant portfolio of quoted shares – for example, on a recognised stock exchange – and are selling them, then CGT may be payable if the gains are in excess of any annual allowance available.

The rules are governing shares and the gains made are complex, particularly if you have bought shares in the same company over a long period of time.

There are currently benefits in relation to Enterprise Investment Schemes (EIS) and your accountant should discuss this with you further if applicable.

GAINS NOT SUBJECT TO CGT

The following is usually not subject to CGT:

- **Depreciating assets, such as a car**
- **Personal possessions up to £6,000 a year – for example, jewellery or antiques**
- **Stocks and shares held in ISAs or a PEP**
- **Certain government-backed securities and bonds, like Premium Bonds**
- **Winnings from betting, lottery or pools**
- **Personal injury compensation**
- **Gains made on foreign currency where it was to be used for you or your family, for instance a holiday**

Planning tips

Your individual circumstances will dictate what planning steps can be made; however, the most common types of planning are:

Election of private residence

You are able to elect for a second property to be your main residence provided that you can justify that you have actually lived in it.

The benefit of this is that the period of occupancy plus three years is exempt from CGT. You have two years from the date you buy the new property to make the election.

Use of spouse

Using your spouse or civil partner can be a particularly effective planning tool for CGT. Transfers of assets between husband and wife are usually made without CGT payable. These are called 'no gain, no loss' transfers.

When assets are sold, the spouse is deemed to have owned the asset from the outset.

CGT is reduced by utilising both parties' annual exemption and if a spouse is a basic rate taxpayer, their rate of CGT will be lower.

However, care must be taken when utilising your spouse in CGT tax planning, as there are circumstances where the above principles would be unacceptable.

ISAs

Using stocks and shares ISAs can shield capital gains from CGT and the income generated is also free of income tax.

If you invest in shares, consider utilising your and your spouse's annual allowance. The allowance for a stocks and shares ISA is £10,200 and £5,100 for cash ISAs.

CGT can appear unexpectedly if you have limited knowledge of the types of transactions that are affected. Understanding it is important, and planning for scenarios as your wealth increases should prevent you overpaying it.

Speak with your accountant about your circumstances and future intentions to ensure planning opportunities are exploited.

■ **Next month: Inheritance tax explained**

Ian Tongue is a partner at Sandison Easson & Co, specialist medical chartered accountants