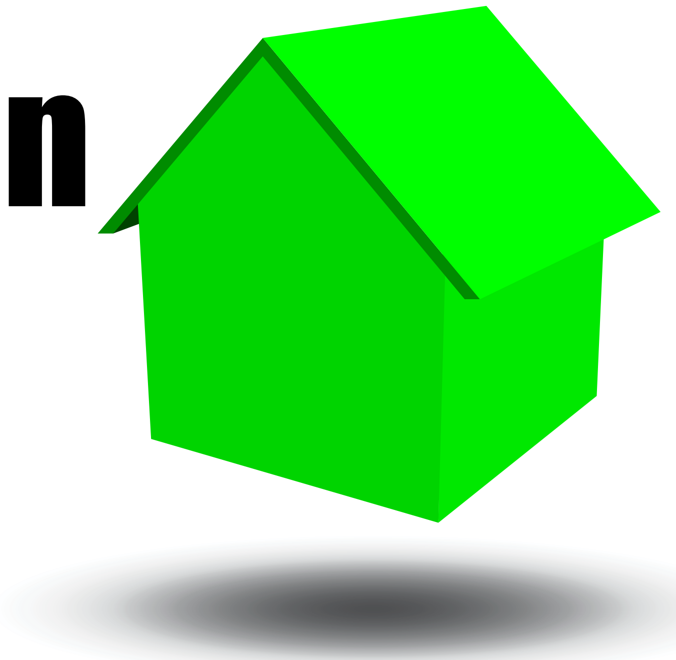
STARTING A PRIVATE PRACTICE

A home for your pension

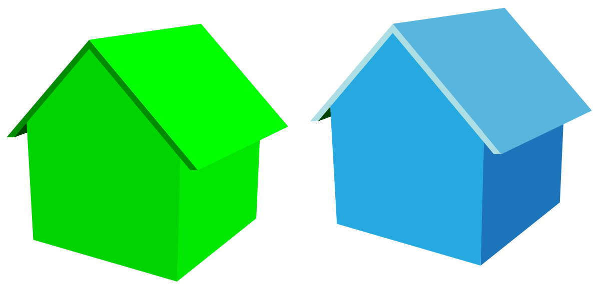


Many doctors own additional property to their main residence – the most common being an investment property, commercial premises or furnished holiday letting.

But, in the last year or so, we have seen significant restrictions to the amounts that can be paid into pensions without incurring a tax charge and the ongoing Hutton public pension reforms are seeking to increase the retirement age, reduce benefits upon retirement and further increase contribution rates.

These factors will, no doubt, make doctors review their pension position, with many turning to property to increase their wealth upon retirement and build an asset base to pass on to their family.

In this article, **Ian Tongue** provides an overview of the most common types of property owned and how the key tax treatment differs



Investment property

THIS IS the most common type of property owned and could have arisen from a straight purchase or perhaps the retention of a former home.

Usually a tenant rents the property and it is held as a medium- to long-term investment.

The rental income is subject to income tax net of allowable expenses incurred; therefore, you will pay at your marginal rate of income tax on any profits made.

Typical allowable expenditure would include the interest element of your mortgage, management fees, insurance and repairs.

But care must be exercised when purchasing a property that requires work prior to letting it out, as there is often a misconception that the expenses will be deductable against rental income.

Capital expenditure of this nature is usually added to the purchase price and tax relief given against capital gains tax rather than income tax in the year of incurring the expenditure.

If you have a spouse who has a lower marginal rate of tax, it may be worth considering the ownership status of the property with a view to having more of the profit assessed on the lower-rate taxpayer.

Any losses made are carried forward against future property rental profits from the same class of asset and it should be noted that they are not deducted from any capital gain on sale.

Upon subsequent sale of the property, capital gains tax is payable, which is calculated as the difference between the selling price (after allowable expenses) less the purchase price, including any capital expenditure.

Currently, an annual allowance of £10,600 is available for individuals, with the balance taxed at 18% for basic-rate taxpayers and 28% for higher or additional-rate taxpayers. Again, tax planning can be undertaken to ensure that the amount payable is minimised and you should always keep your accountant informed of your intentions.

If your investment property was your former home, it is likely that a significant amount of capital gains tax can be mitigated through private residence relief and letting relief – the latter of which assumes, of course, that the property was rented out.

Commercial premises

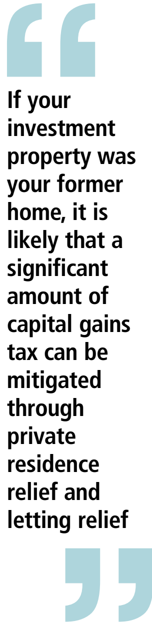
Buying a commercial premises for your private practice is always a big step, but it can be a very effective way of building a business asset, which is looked on more favourably in relation to inheritance tax due to business property relief.

At present, an asset qualifying for business property relief is effectively removed from your estate on death and therefore should escape inheritance tax. This also applies to transfers while alive, although the interaction with capital gains tax needs to be factored in as with all connected party transfers.

A premises of your own also allows you to potentially reduce your private practice expenditure and if you are able to rent any surplus capacity, it can greatly reduce the cost of ownership.

Much of the expenditure of running the premises will be a tax-deductable expense and capital allowances are given on the majority of capital expenditure, depending on its class.

For example, fixtures and fittings are given annual allowances of 18% but expenditure on integral fixtures would only be given 8% a year and both are calculated on a reducing balance basis.



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As present, a special allowance called the Annual Investment Allowance (AIA) is available in relation to the first £25,000 of qualifying expenditure. Once the AIA is used up, the rates highlighted above apply to the majority of expenditure likely to be incurred.

Capital gains tax is payable using the same calculation method as previously described, although a relief known as 'entrepreneurs relief' may be available, reducing or extinguishing the gain.

Your accountant can be of particular use is you are considering buying premises. If they are a medical specialist, they can no doubt discuss practical points of you taking on premises as medics as well as the tax treatment.

Furnished holiday lettings

Furnished holiday lettings have come under fire from HM Revenue and Customs (HMRC) in recent years, as they were particularly tax-efficient.

Previously, provided the criteria were met, you were able to offset any losses incurred against other sources of income such as private practice income.

However, changes have now increased the criteria to classify the property as a furnished holiday letting and restrict the treatment of the losses to effectively only allow them to be used against profits from the same furnished holiday letting business.

While this has, no doubt, closed the loophole allowing the offset of losses, it may still be an attractive way of helping to fund a holiday home for the family.

The criteria to be met are strict and require the property to be available to the public for a minimum of 210 days a year, actually let to the public for a minimum of 105 days a year and not let to the same person for more than 31 days.

Again, capital gains tax is payable upon subsequent sale and provided all criteria are met, entrepreneurs relief may be available to reduce or extinguish the gain.

In relation to inheritance tax, HMRC has always argued that furnished holiday lettings do not qualify for business property relief.

However, there is currently an ongoing tax case which has initially ruled in the favour of the taxpayer, but no doubt HMRC will appeal.

If considering purchasing a furnished holiday let, this may be an important consideration and you should ask your accountant to update you on developments in this area.

Owning property can be a sound investment and a good way of building wealth towards retirement with the benefit of being able to pass it on to family members.

Before purchasing any property, it is always a good idea to discuss matters with your accountant to ensure that it works towards your investment and wealth generation strategy.

■ **Next month: Navigating the financial stages of your career**

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