

# PERSONAL EXPENSES IN FOCUS

In the sixth and final part of his series on GP financial management, accountant Ian Tongue looks at the much discussed issue of personal expenses

Filling in the personal expense claim is often regarded as a chore, but it has a direct impact on your tax liability and is therefore very important. Put simply, more expenses equals less tax. Therefore, it is important that GPs are aware of what they can claim for as legitimate privately incurred expenditure in relation to their partnership income.

## Where does the claim fit in?

Often there is confusion about where the personal expense claim fits into the calculations and also how you get from accounting profit to individual taxable profit. The diagram opposite illustrates the various stages from the surgery accounts to the individual self-assessment tax return.

Clearly, the personal expense claim is very important in reducing your tax liability.

## What expenses can be claimed?

A multitude of expenses can be claimed, but it is important that the system is not abused. Over-claiming may lead to an inquiry from HM Revenue & Customs for the individual doctor, the partnership and possibly even the other partners.

The individual circumstances pertaining to a GP's expenses must also be taken into account. An expense that is valid for one partner may not be valid for another – for example, a GP undertaking out-of-hours work.

The most common expense areas that are claimed are:

- use of car and travel
- professional indemnity insurance
- professional subscriptions
- salary to spouse (if involved with the business)
- mobile phone
- home phone
- broadband or other internet fees
- courses
- medical journals and books
- use of home as office
- locum fees
- locum insurance (any income received becomes taxable if premiums are claimed as expenses)
- capital allowances.

Where there is an element of private and business use, the proportion in relation to the business must be established, thereby reducing the claim.

It should be noted that loan interest in relation to a surgery buy-in is usually included directly on the tax return and not in the personal expense claim.

## Problem areas

**Use of car and travel** Often there is confusion about the business percentage that can be claimed regarding use of car and travel expenses.

In order to establish the business use percentage, you must monitor your mileage

over a period of time to analyse the nature of the miles travelled. This is often referred to as a mileage log and typically it would be prepared over a two- to three-week period that is representative of your usual driving patterns.

The log should show all miles travelled, including both travel to the surgery, home visits and private trips, such as shopping. A new log should be prepared periodically to ensure that the best estimate is being made of business use.

It is important to understand that travel from home to your normal 'base' of operations is not allowable. Depending on circumstances, it can be argued by HM Revenue & Customs that an individual has more than one base. Your accountant will be able to advise you about your individual circumstances.

**Salary to spouse** Historically, many GPs paid a small amount to their spouse/partner in recognition of work they performed. Following the introduction of the new contract, fewer GPs are doing out-of-hours work and the nature of how this service is provided to patients has also changed. So it is becoming less common to include a salary to spouse/partner.

However, as GPs develop new sources of income in response to falling profits, this type of expense may become more common – provided the spouse/partner is actively involved.

**Communication costs** As with motor and travelling costs, the business percentage use

of your mobile phone, landline phone and internet must be established. With the mobile and home phones, this can be achieved by reference to a sample of bills – assuming this represents 'normal' usage.

The costs of broadband or other internet costs should also be allowable. However, it is more difficult to split the internet usage between business and private. The nature of the medical profession requires GPs to keep up to date with current developments and therefore the internet is becoming a vital tool for professional development. If a reasonable estimate of private use is accounted for, the balance should be included as expense.

**Use of home as office** As with the spouse's salary, the reduction of out-of-hours work has generally reduced the amount of administration GPs have to do at home. However, most GPs still do some work at home and it is reasonable that an expense for this is claimed.

Care should be taken to ensure the cost is not excessive and is computed in the best way for your circumstances. Certain types of claim can result in capital gains tax issues – your accountant can discuss this further with you.

**Capital allowances** Capital allowances are available in relation to equipment purchased privately and used for business and motor vehicles. They are the taxman's form of depreciation on capital assets and are applied as a deduction against taxable profit.

It is worth noting that the Government is proposing changes in relation to capital allowances. These proposals include a £50,000 annual investment allowance, and motor vehicles will be significantly affected with a proposed move to an emissionsbased approach.

The details have not been released yet. But it is safe to say that cars with higher emissions will be treated less favourably than green vehicles. If you are considering changing your car or investing in capital in the near future, it is worth discussing the timing of this with your accountant.

## Making information available

As the partnership tax return cannot be prepared without each doctor's expense claim, the return can be held up waiting for information. If the partnership return is not submitted by the due date, currently 31 January, the partnership faces a filing penalty of £100 together with a penalty of £100 per partner. Therefore, doctors should agree to a timetable for submitting personal expense information to ensure delays and penalties are not incurred.

It can be a chore to pull together all of the relevant paperwork, but clearly it is vital to do the job efficiently.

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