STARTING A PRIVATE PRACTICE

Planning for the year ahead

As the current tax year draws to a close, it is an ideal opportunity to take stock of your position and make sure you are well placed for the year ahead, says Ian Tongue (pictured below)

IT IS always a good idea to review your strategy for running your private practice, and right now is an ideal time to re-assess matters.

It may not be the anniversary of your practice commencement, but the following areas should be considered:

- Trading structure;
- Prices charged for consultations and procedures;
- Marketing and advertising spend and success thereof;
- Indemnity insurance;
- Accounting systems;
- General expenses for value;
- Proposed changes in tax legislation.

The above is not exhaustive, but represents some the key areas that are sensible to consider annually and, no doubt, their re-examination will pay dividends.

Savings and investments

Many individuals have ISAs and this is a particularly good way of saving tax-free, as the money is shielded from both income and capital gains taxes. The 'Accountant's Clinic' feature (see page 10) has already drawn attention to this in this issue, but I make no apology for re-iterating the advice, as it is often not taken up. The maximum allowance is £11,280 for 2012-13, of which a maximum of £5,640 can be in cash, with the remainder – or all – being in stocks and shares.

Remember that the ISA allowances are per individual and therefore do ensure that your spouse's allowances are also utilised.

Pensions

Most consultants engaging in private practice will be active members of the NHS Pension Scheme. However, with the changes proposed and in part already implemented by the Hutton report, no doubt many will be considering their options.

For the tax year 2012-13, there is an annual pension allowance for individuals of £50,000 a year. With the NHS scheme being a defined-benefit scheme, your contribution relative to this limit for the NHS scheme is calculated by reference to your increase in benefits under the scheme and not the amount you pay through your salary.

Many consultants, particularly in the earlier stages of their career, will have some capacity to pay into a personal pension. However, this should only be considered following professional advice from an independent financial adviser after reviewing your circumstances and retirement plans in detail.

Also consider the pension position of your spouse, because – depending on their circumstances – paying into a pension scheme may attract additional tax relief and an income stream on retirement taxed at a lower rate. Again, an adviser should review your position in detail.

Announcements made in December 2012 by The Chancellor George Osborne reduce the annual tax-free allowance for pensions from £50,000 to £40,000, and cut the lifetime allowance from £1.5m to £1.25m from 6 April 2014. This is likely to affect a significant proportion of NHS consultants and GPs.

At the time of writing, the full detail of transitional rules is not clear, but professional advice should be sought if you are thinking of paying additional amounts into a pension, retiring, suspending or leaving the NHS Pension Scheme and making any lifetime pension allowance elections.

Charitable giving

In my experience, a high proportion of doctors are very generous when it comes to charitable giving. At present, there is no limit to how much you can give and, under the Gift Aid scheme, both the recipient and donor benefit from the gift.

Tax relief is given at 20% of the gross gift by extending your basic rate tax band and therefore a gift of £100 for a 40% taxpayer gives a registered UK charity £125 and gives you tax relief of £25, and therefore the real cost is £75. This may also help if the level of your income is such that your personal allowance is being abated.

At present, there is no limit to the amount that can be paid under the Gift Aid scheme, but the contributions are given by reference to the date paid and so you may wish to consider making any one-off donations before 5 April 2013.

Trading as a company

For those trading as a company and for 50% taxpayers, it is certainly worth considering your options in relation to deferring dividends until the new tax year, i.e. 6th April 2013 onwards.

The reason for this is that the additional tax rate is proposed to fall from 50% to 45% from 6 April 2013 and therefore the extraction of dividends for someone affected is cheaper after that date.

Before making the decision to defer dividends, speak with your accountant, as the effect on your spouse's dividends (if applicable) must also be considered.

For those consultants not trading through a company, it is worth considering your trading structure annually. Recent announcements reduce the main rate of corporation tax to 21% from 1 April 2014 and therefore those with large private practices, who had previously discounted incorporating, should consider their position again with help from their accountant.

Purchasing of assets

The Annual Investment Allowance (AIA) is an acceleration of tax relief on the purchase of qualifying asset purchases designed to encourage investment. It has been widely tinkered with over the last few years, peaking at £100,000, but is now down to £25,000 for the year ended 5 April 2013 (31 March 2013 for companies).

However, following the Chancellor's statement in December, the AIA is set to rise to £250,000 from 6 April 2013 (1 April 2013 for companies).

If you are looking to invest less than £25,000 and are a 50% taxpayer, it is certainly worth considering purchasing the asset before 5 April 2013. However, the financial year adopted by your private practice can affect the size and timing of relief and therefore you should discuss this with your accountant.

If you are considering a significant purchase of an asset – for instance, greater than £25,000 – it is certainly worth considering the timing of acquisition, given the AIA increase proposed. Speak to your accountant to discuss the effect for your proposed purchase to ensure that the available relief is maximised.

Also, capital allowances on vehicles is set to fall from 6 April 2013 and therefore, depending on your circumstances and the type of vehicle you require, it may be worth considering changing your vehicle before 5 April 2013.

If you are considering this, discuss your individual circumstances with your accountant.

Reviewing your practice annually and making sure you have utilised any available tax allowances is always sound advice. Make sure that you put some time aside in advance of the tax year-end to consider your position.

■ **Next month: A recap on tax-deductible expenses**

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