STARTING A PRIVATE PRACTICE

Very many happy tax returns

For those that have not prepared a tax return before, or are still new to preparing returns, Ian Tongue (below) explores the typical information requested and provides useful pointers when pulling everything together

HM Revenue and Customs would lead you believe that 'tax does not have be taxing', but for many it can be extremely daunting having to prepare a tax return and it is now that time of the year when you are, no doubt, being chased by your accountant for your tax and accounting records to complete your tax return for the year ended 5 April 2012.

Employment

Most consultants engaging in private practice still maintain commitments with the NHS and therefore will receive regular payslips and an end-of-year P60 document. The P60 shows your total taxable pay together with the income tax deducted at source under the PAYE system for the year/period ended 5 April.

If you have multiple employment posts, you should receive a P60 for each, unless they are paid under the same PAYE reference. Always make you accountant aware of multiple employments and it is vital that the tax coding on these is reviewed regularly to avoid problems later on.

Due to the changes in relation to capping the tax relief available on pension contributions, it is likely that your accountant will have requested your March payslip this year as well as your P60. It may seem that this is a duplication, as it includes the taxable pay and tax deducted, but the key information on the payslip will relate to your superannuable earnings, which are, more often than not, different to your taxable position.

Depending on your level of earnings and information submitted in the past, your accountant may request March payslips for earlier years as well to assess your position further. It will be some time in 2013 before NHS Business Services Authority issues the relevant information to your pension contributions and therefore it is vital that your accountant is reviewing this for you and advising accordingly.

Coding notices

Tax coding notices primarily indicate how much tax-free allowances will be applied to your employed earnings. In the past couple of years, we have seen a significant increase in errors by HM Revenue and Customs (HMRC) on the tax coding notices and with your agent (accountant) no longer receiving copies of these documents, it is vital that you submit current coding notices to your accountant for review as soon as you receive them.

Savings and investments

For interest-bearing savings accounts that are not within a tax-free scheme – e.g. ISA – you should receive a summary of the interest credited to your account together with income tax deducted. It is important that these summaries are supplied, as HMRC may already have received notification of your interest earned and omitting the information is a quick route to trigger an enquiry.

Banks are always looking to cut costs and paperwork and therefore the above information may be a footer to your April bank statement or, if you are using a paperless service, a separate document for you to download.

In relation to shares, you should receive a dividend voucher for each dividend paid on shares that you own. It is important that you keep these vouchers safe and supply them to your accountant. You should also provide your accountant with details of any new shares purchased and any disposed of during the year to 5 April.

If you have a managed portfolio of shares, it is usual for a document to be issued by the company managing the portfolio summarising the position. This will include both details of dividends and any disposals and so on.

If you are trading through a limited company for your private practice, you should be preparing dividend vouchers each time a dividend is paid and these should be provided to your accountant, particularly if your private practice does not have a year-end coterminous with the tax year-end.

Investment property

Many consultants own investment property and it is important that all relevant information is provided about rent and associated running costs. With the current low interest rates, many properties are generating profits and it is important that they are accounted for correctly. For property held jointly, the profit will be split between you. It may be the case that tax planning in this area is appropriate, depending on your spouse's financial position.

Foreign

Many consultants have financial interests outside of the UK that may generate them an income or capital gain. The rules around the taxation of these is complex and changed a couple of years ago. Therefore it is vital that you make you accountant aware of your entire worldwide position irrespective of whether the money is brought to the UK. Your accountant will discuss your position further if this affects you.

Private practice

Depending on your chosen trading structure – sole trader, partnership or limited company – you are likely to receive a separate information request for your accounting records. Ideally, your private practice results should be prepared and agreed well ahead of the tax return to ensure that you have adequate time to review and consider the figures presented.

Groups

If you are involved in a group, the accountant preparing the figures for the group will need to provide the relevant information for your tax return. If you provide your accountant with their details, they should liaise directly with each other. If the information is not available in time, it may be necessary to estimate your share and amend the tax return later on.

Deadlines

The deadline for submission of your tax return for the year ended 5 April 2012 is 31 January 2013, provided that the return is submitted online. Don't leave things to the last minute, as it may not provide your accountant enough time to prepare you return, as there is a significant increase in workload for all accountancy practices during December and January.

In certain cases, provisional figures may be submitted and amended later on, but these should be avoided, as it may increase your risk of an enquiry with HMRC.

Not achieving the deadline for submission is now potentially more expensive and paying the tax on time does not extinguish the penalty for non-submission.

What if I cannot pay?

Leaving the tax return to the last minute can often come hand in hand with a shock as to the level of tax payable, This may catch you out if you have not saved for tax from the outset of your private practice or perhaps were not aware of tax coding issues on your employment earnings.

In the current climate, HMRC has been more flexible with regards to payment and are likely to enter into a payment schedule. They will expect you to keep to the arrangement and it is worth noting that your ongoing liabilities still need to be saved for at the same time, so it is only a short-term position.

If you think you may have a problem with the level of tax saved, don't put your head in the sand, as your accountant can really help you with this difficult situation and work with you to prevent it happening again.

While the above is not exhaustive, it does provide you with the more common areas of difficulty in collating the required information. If you have not completed your tax return for the year ended 5 April 2012, send everything to your accountant as soon as possible. If you are in any doubt regarding the information required, ask your accountant.

The deadline for submission of your tax return for the year ended 5 April 2012 is 31 January 2013 provided that the return is submitted online. For paper returns, the deadline is 31 October 2012.

■ Next month: Working in a group – the dos and don'ts

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