



Old Mill Medical Services



Peter Haugh, Director of Old Mill Medical Services

It is most certainly a difficult time for GPs. Against the backdrop of a more or less nil award from the Government practices are having to get to grips with the impact of capital gains tax changes on surgery premises.

There have also been capital allowances changes which could particularly impact on recently constructed surgeries, increased superannuation contributions for the higher earners and the removal of the earnings cap for certain GPs.

The last of these can lead to significant increases in superannuation contributions as the article below on Cash Flow highlights. Sound financial planning advice has never been more important. We can help you forecast the impact of the various changes and ensure that you are fully prepared for potential financial shocks that might be lurking.

Cash flow warning

A combination of two of the pension changes due to occur on 6 April 2008 can cause severe cash flow problems which must be heeded by practices.

The two relevant changes are:

- The increase in rate of the employee's superannuation contributions from 6% to a maximum of 8.5%.
- The abolition of the earnings cap which for 2007/08 was £112,800.

The potential problem arises with a high earning GP (maybe a dispenser) who up to 5 April 2008 was

capped for pension purposes. Let us assume that he or she has superannuable income of £150,000.

In 2007/08 the contributions are:

Employers at 14% on £112,800	£15,792
Employees at 6% on £112,800	<u>£6,768</u>
	£22,560

If earnings remain constant in 2008/09, the contributions are:

Employers at 14% on £150,000	£21,000
Employees at 8.5% on £150,000	<u>£12,750</u>
	£33,750

Increase **£11,190**

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It is the practice who has to fund the increase of £11,190 even though this amount is charged to the individual partner. For such partners, drawings will probably have to be reduced, particularly bearing in

mind the minimal overall 2008/2009 pay award. We strongly recommend you keep a close eye on monthly superannuation deductions and do not end up with a cash flow problem at the end of the year.

Concerns about pension overpayments

There are serious concerns about the way in which pension contributions will be calculated in the first year of the newly updated NHS Pension Scheme.

There is a fear that some GPs will lose out because they will pay higher contributions than they should and will have no opportunity to reclaim overpayments.

From 1 April contributions are variable and calculated according to the amount GPs earn. Contribution rates rise in tiers starting at 5% for the lowest earners and increasing to 8.5% for the highest earners. In 2008/9, the first year of the new arrangements, the tier percentage applied will be determined by the GP's pensionable profit in 2006/7.

However, GPs whose income has reduced since then, through falling practice profits or because they have reduced their hours, will still have to pay contributions based on the tier percentage based on their income from two years ago. Under existing rules there is no provision to vary the percentage used.

Below are two examples of how GPs might be paying too much:

1. Falling practice profits

A GP working full time in a GMS non-dispensing practice had pensionable income of £107,000 in 2006/7. The practice profit falls in 2007/8 and again in 2008/9. The doctor's pensionable profit falls 5% to £101,650. Based on the contribution tiers for 2007/8, this moves the GP from the 8.5% contribution tier down to the 7.5% tier. However, the GP has to stay in the 8.5% tier for 2008/9, which will cost him an extra £1,016.50.

2. Reducing hours

A GP moves to part-time working and her pensionable income falls from £105,000 in 2006/7 to £50,000 in 2008/9. The contribution rate for her employee contributions is based on her 2006/7 pay and she therefore pays 8.5% contributions totalling £4,250. If the contribution rate had been calculated on estimated profits for 2008/9 she would pay 6.5% contributions totalling £3,250, a saving of £1,000.

So far the government has shown no signs of being prepared to redress such anomalies. Pension arrangements for practice staff have also changed. Staff earning less than £19,683 will have their contribution rate reduced to 5% on their 2008/9 income, while those earning from £19,683 to £65,002 will pay contributions of 6.5%. Practices will need to be sure that their payroll is properly prepared for these changes.



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Capital gains tax on the sale of the surgery premises – a potential pitfall

Much has appeared in the press regarding the changes in capital gains tax now set out in the Finance Bill 2008.

This has particularly affected the sale of business assets such as the surgery premises most usually by a departing or retiring partner selling his or her share. Generally a higher rate tax payer could expect to pay no more than 10% tax on gains arising from the surgery disposal under the old rules.

With the loss of indexation and taper relief under the new rules the increase in tax could be well above the apparent increase from 10 to 18%. Entrepreneurs' Relief has been introduced to mitigate the impact of the new rules. At first glance the new Relief will help reduce the

capital gains tax due on business asset disposals (adding to no more than £1 million over the taxpayer's lifetime) to 10%. However, there are key points to bear in mind:

1. The relief is available where there is the sale of the whole or part of a trading business which for GPs would generally be upon retirement or leaving a practice. Thus where a GP continues in the medical partnership but sells his or her share of the property, Entrepreneurs' Relief may not be available on the disposal.
2. Where a surgery is owned by a different group to the medical partnership, which could be a subset of the medical partners or include a retired partner, and rented to the medical partnership it is unlikely that a disposal of the whole or part of the property would qualify as a business asset. In such a situation Entrepreneurs' Relief would not be available and the full 18% rate would apply.

It is important to take early advice in such situations.

The bell, the bells

If a grey breasted gentleman with glasses comes to see you talking about hearing bells ringing please do not be alarmed – it may not be a medical matter.

Paul Treby, Old Mill's Senior Medical Partner has been involved with an exciting project to retune, repair and restore the bells in St Peter and St Paul's Church, Shepton Mallet.

Paul was instrumental in the team which raised £80,000 for the project. The only problem was that all eight bells had to be removed from high up in the church tower

and loaded on a lorry to go to the bellhanger in Appleton.

Paul has been part of a team of volunteers who have got specialist lifting equipment and electronic hoists up into the church tower and have gently lowered the bells to the ground. The bells are currently at one of the countries few bell foundries and will be returned later in the summer when they will have to be lifted back up the Church tower into position.



Capital allowances changes

As far as GP practices are concerned it is generally good news.

The key changes are as follows:

- From 6 April 2008 there is a new Annual Investment Allowance (AIA) which effectively allows a practice to offset against profits 100% of expenditure on plant and equipment in the year of expenditure up to a limit of £50,000 per annum (the old rate was 50%). There are transitional adjustments to this new limit for practices with an accounts year that straddles 6 April.
- There is a new category of expenditure incurred on or after 6 April 2008 – 'integral features' such as space and water heaters, general lighting and cold water

systems and lifts. Certain of these would not previously have attracted any capital allowances tax relief. Such expenditure can be included as part of the AIA.

- Plant and equipment expenditure above the £50,000 limit will qualify only for a 20% deduction in the first year. Thereafter the annual deduction rate on such expenditure will be 20% (as opposed to the old rate of 25%).
- Integral features expenditure above the £50,000 limit will qualify for only a 10% deduction in the first and subsequent years.

There are certainly opportunities for new surgery builds and for others the AIA should be a tax boost. It will be important to consider new accounts bookkeeping headings to properly record the new types of expenditure at the outset.



The 2008/09 pay award – what award?

In making its report for 2008/09 The Review Body on Doctors' and Dentists' Remuneration (the DDRB) has applied a very harsh line interpretation to a clause buried in the final agreement of the 2006/07 GMS Contract Revisions:

'It was agreed that future uplifts to the global sum should seek to reduce the reliance upon correction factor payments and, therefore, release an element of the correction factor envelope'

The end result of the DDRB interpretation of this paragraph is that although the Global Sum should be increased by 2.7% for 2008/09 they have said that any increase would be deducted in full from the practice's correction factor.

In practice this would mean for example that a three partner practice with a current Global Sum of £291,000 and a Correction Factor of £39,000 would see their

Global Sum for 2008/09 increasing by £7,857 and their Correction Factor going down by £7,857. Their overall income from the combined Global Sum and Correction Factor of £330,000 would be unchanged. If the rate of uplift to the Global Sum remained at 2.7% per annum then this practice would not see any actual increase until 2011.

It is estimated that over 90% of GMS practices are likely to receive nothing. Longer term over 50% of practices would see no actual increase in funding for five years, and some would be waiting over ten years before they see an increase.

So where is this likely to go from here? One would speculate that once practices realise that the MPIG has been broken and that the correction factor will be recouped over time they will start to press to have the Allocation Formula revised and a wholesale revisit on practice funding carried out. There may also be an immediate knock on effect on PMS practices. At the moment PMS practices are expecting local negotiations to give them a 1.5 % uplift for 2008/09, however at a time when the vast majority of GMS practices may not actually see an uplift that may not happen.

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