Wessex LMCs Update

Income Tax - Annual Allowance - everyone should read this!

As an LMC we meet every 3 months with the **specialists Medical Accountants** and **Solicitors** and also **Chartered Surveyors**. This is really helpful in terms of discussing topics of mutual interest in their specialist areas and allows the LMC to provide information relating to a number of key issues that are going on in general practice.

General practice finance is more complex than it has ever and practices and individual GPs would be wise to have an accountant that specialises in general practice.

The following was prepared for the LMC by two of our specialist Accountants - **Sally Sidaway** from RSM UK Tax and Accounting Limited and **Roger Morgan** from Sandersons.

"One of the main topics of conversation at GP practice meetings this year should be unfortunately, the 'Tapering of the Annual Allowance limit' with regard to pensions. New rules from 2016/2017 are leading to huge increases to many GP's tax bills from January 2018 onwards. GP's ignore this legislation at their peril!

2015/2016 in contrast saw the majority of GP's escape an Annual Allowance tax charge but the goalposts have now moved and this should be a clear message that you have taken and understood from your accountant or IFA.

2016/2017 saw the introduction of tapering of the annual allowance limit. Those earning over £110,000 may well see their annual allowance limit reducing from £40,000 down to a possible £10,000 depending on individual levels of total income. When this happens unused relief that may have been generated in 2015/2016 and earlier years is likely to be used up in full in 2016/2017 which may mitigate a tax charge but very often will not remove it altogether. This is real extra tax that will need to be paid for no extra growth in pension when a GP retires. The extra tax for 2016/2017 is payable in January 2018 and the position will be potentially worsened due to the knock on effect to the first payment on account towards 2017/2018 tax.

The tax year 2017/2018 gets worse as most higher earners will by that point have no unused relief left to offset and the CPI rate which will be used as part of the dynamising calculation is based on the September 2017 factor. September 2016 saw a factor of 1%, it is largely expected September 2017 will be higher thus giving more growth to pension pots. As an extra point it should be noted that the growth rate in the new 2015 scheme is in fact faster than in the 1995 scheme so individuals in this scheme will see pension growth at a faster rate. A small growth in inflation with no other changes can have a large effect on annual allowance growth.

We are advised by the Specialist Medical Accountants acting for a number of our GP's that the increases in tax liabilities that they are seeing as a result of these rules are often staggering in size and this is an area that must be looked at very carefully.

If you have not been asked to already your first step is to download a Total Rewards Statement from NHS pensions website. You will need a government gateway login first to enable you to do this. Make sure this has been forwarded to your accountant for careful review. The Total Reward Statements will not be fully up to date they are likely to be live to 31st March 2015 but your accountant should be able to extrapolate forward from this with your last two years' pensionable earnings.

Whereas Life Time Allowance planning may well be a conversation that you need to have with your IFA, your accountant has a duty to review your Annual Allowance position if information can be obtained in order that your Income Tax Return can be prepared as accurately as possible. It is not advisable to await statements setting out your position from NHS pensions agency as under the current system these will be sent out after the date at which your Income Tax return has to be submitted. As always if with hindsight extra tax is found to be due, HMRC will charge interest on late payment of tax and there could be the possibility of penalties.

Eventually NHS pensions Agency should advise you of your Annual Allowance breach although this cannot be relied upon without request.

Self Assessment tax is clear that the individual remains responsible for declaring all tax due, NHS pensions agency will not be in any way responsible. Beware also:

The NHS pension saving statement setting out any breach:

a) Will not have considered any non NHS pension contributions made.

b) Will be potentially many months after the tax is due giving a nasty shock of tax effectively payable immediately.

c) This is retrospective, once a tax charge has arisen it cannot be reversed if you know in advance what is likely to happen you have a chance to take mitigating action.

d) In a number of cases the tax numbers are enormous and facility to pay this tax will need careful planning.

e) These rules are not only a problem for GP's with big pension pots who are near end of career, many young GP's are also being hit where earnings are high.

If you are not getting the right advice on this area of your tax and pension affairs please consider your position very carefully. There are ways to mitigate the tax and you need to consider if any of these are appropriate to you.

Below is a real example of Dr Smith (name changed to protect identity)

In 2016/17 it was estimate that Dr Smith had unused pension relief brought forward of £14,017. However her tapered annual allowance for the year is calculated at £18,189 and it was estimate her deemed growth in her pension at £65,857. She therefore has 'excess' contributions of £33,651 (calculated as £65,857 less £18,189 and less £14,017) which gives rise to a tax charge of £13,460 for that year.

For 2017/18 (assuming she remains a member of the scheme for the whole year) and estimating CPI at 2.5% (we won't know this figure until September) the position is worse. She has now exhausted any unused relief from previous years. Her accountant estimated her deemed pension growth ay £72,202 and her tapered Annual Allowance at £15,485. If she had done nothing her excess for the year will be £57,717 resulting in a tax charge of £23,086.

Some of the AA tax charge can be paid by the pension scheme but not all. The GP partners do not receive any extra drawings to cover this tax and it is therefore a direct hit on the cash available to them to draw. The NHS pension scheme cannot advise the value of their pensions at the beginning and end of the year (and many GP's are unable to access their Total Reward Statements at all at present) so all of these figures are our best estimates based on the information known to us at this time. We have to make an entry on their tax returns to declare the potential liability and as you can see we are talking some very significant figures. Dr Smith's views are similar to most partners reactions that we are getting at the moment so I am sure you will be hearing a lot more about this over the coming months.