

HAZLEWOODS LLP

BUSINESS ADVISERS & CHARTERED ACCOUNTANTS

Dental **Focus**

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www.hazlewoods.co.uk/sectors/dental_accounting.aspx

Introduction

Welcome to the latest edition of Dental Focus.

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Tax Round Up



Many of you will already be aware of some recent tax changes and announcements. Below we set out an outline summary of the key changes which affect dentists, together with tax planning opportunities that might arise.

Changes to Personal Tax Rates

With effect from 6 April 2010 a new top rate of income tax will be introduced of 50% (currently 40%) for those with taxable income greater than £150,000. Where the taxable income in excess of £150,000 is dividends, the tax rate will increase to 42.5% (currently 32.5%).

In addition, personal allowances for those with taxable income over £100,000 will be reduced by £1 for every £2 above the threshold, such that those earning over approximately £113,000, will have no personal allowances available.

Whilst the published new top rate is 50%, due to the tapering of personal allowances, those earning between £100,000 and approximately £113,000 will suffer an effective tax rate of 60%.

National Insurance Contributions

The Pre Budget Report in December 2009 announced that from 2011/12 National Insurance will increase by a further 0.5% for all Class 1 and Class 4 contributions. National Insurance was already set to increase by 0.5% therefore for earnings over £150,000 the combined rate of tax and National Insurance will be 52%.

Corporation tax

The full rate of corporation tax will remain at 28% for 2009/10 and 2010/11. The small companies' rate (for taxable profits below £300,000) will remain at 21% for 2009/10 and 2010/11 as the proposed increase to 22% has been deferred for another year.

Incorporation

Perhaps the main tax planning opportunity as a result of these changes is the status of the business and whether it needs to be reviewed. Certainly, for businesses with taxable profits of below £300,000 incorporation is still potentially an opportunity, but these changes could also result in businesses with significantly higher profits now finding that incorporation is relevant.

We have prepared the first set of company accounts for some of our clients who incorporated at the beginning of 2008. These show **actual tax savings of between £14,000 and £62,000** when comparing the corporation tax liability for the year with the income tax / National Insurance charge if they had not incorporated. These savings are expected to increase when the new top rate of income tax applies.

Obviously, there are various costs associated with incorporation, including Capital Gains Tax on the sale of goodwill and legal and professional fees. How quickly these will be recuperated will depend on your individual circumstances.

Our incorporation model has been updated to reflect the Budget changes, so we can provide you with details of the potential tax savings available from incorporating your practice. Of course everyone's circumstances differ and there are many factors to consider. Professional advice should be sought.

Capital Allowances

Equipment - temporary First Year Allowance

Where qualifying expenditure on equipment exceeds the Annual Investment Allowance (AIA) of £50,000, a temporary 40% First Year Allowance (FYA) is available to all businesses on the excess expenditure, for 2009/10 only.

As usual, there are exceptions where the expenditure will not qualify, such as 'special rate' expenditure (including long life assets and integral features) and expenditure on cars.

There are planning opportunities for businesses in respect of capital allowances, especially where capital expenditure is significant. By staggering expenditure over two financial year ends, it is possible to effectively

double the AIA to £100,000, thereafter claiming 40% first year allowances on any amount above the AIA.

If you are planning significant capital expenditure in the near future seek professional advice as to the timing, particularly if your taxable profits are expected to be between £100,000 and £113,000 or over £150,000.

Cars

New rules have been brought in from April 2009 for expenditure incurred on cars.

Cars will be allocated to a capital allowances pool depending on their Carbon Dioxide (CO₂) emissions, on which a Writing Down Allowance (WDA) can be claimed as follows:

CO₂ emissions greater than 160g/km - 10% pool

CO₂ emissions are 160g/km or less - 20% pool

Cars that have an element of non-business use within an unincorporated business will continue to be in single asset pools to enable the private use adjustment to be made, with the rate of WDA being determined by the car's CO₂ emissions.

A simplified flat rate disallowance of 15% for car lease rental payments will only be applied to cars with CO₂ emissions exceeding 160g/km. The old rules (whereby the disallowance is linked to list price) will still apply for those leases entered into before April 2009 and will run until the end of the lease.

Income Shifting Legislation

There was nothing included in the Pre-Budget Report regarding such legislation. Previous proposals would have restricted the ability of husbands and wives to extract profits from businesses in the most tax efficient manner. We will have to wait and see if anything is mentioned in the next Budget.

Entrepreneurs Relief

No changes have been announced to the Entrepreneurs Relief legislation. This relief allows Capital Gains on certain assets during the lifetime of an individual, up to a limit of £1 million, to be taxed at a rate of 10%. Whilst there are strict rules in terms of qualification for Entrepreneurs Relief, opportunities to plan for capital disposals remain. Advice should be taken at least 12 months before any disposals in relation to shares in a trading company, disposal of part or whole of an

unincorporated business or assets used in the business, to ensure that the relief is obtained.

Individual Savings Accounts (ISAs)

The ISA annual investment limit has increased to £10,200 for over 50 year olds for 2009/10 and for everyone else from 2010/11. This is an increase of £3,000.

Summary

A number of changes in tax legislation have been announced recently. As the most recent NASDA statistics show the average profit per dentist is now £141,288. A significant number of dentists will be affected by the above changes so it is important to take advice before taking action to ensure that you and your business plan carefully. An incorporation review could be money well spent!

For further information please contact either Graham Rew or Nigel Utting.



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Employment Benefits

Following the compulsory registration of dental nurses with the GDC, it has become common for a dental practice to pay the annual subscriptions for its staff. Under tax law this is a benefit in kind and has to be reported on form P11D each year. Though this is a benefit for the employee it is also a tax deductible expense, which means that at the same time as filing the P11D a claim can be made to prevent any additional tax arising for the employee.

It is possible to apply to HM Revenue & Customs for a dispensation, which is an agreement that the various benefit in kind forms will not be required for specified expenditure when ultimately there is no tax liability. Applying for a dispensation will save the annual hassle of preparing P11Ds and related claims.

For further information please contact Glenn Collingbourne.



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Employment 'Snippets'

Minimum Wage

The National Minimum Wage increased with effect from 1 October 2009 as follows:

Minimum Wage

Adults

From £5.73 to £5.80 per hour

18-21 year olds

From £4.77 to £4.83 per hour

16 and 17 year olds

From £3.53 to £3.57 per hour

Statutory Holiday Entitlement

On 1 April 2009 the annual holiday entitlement for full time staff increased from 24 to 28 days. The entitlement includes Bank Holidays (currently 8) and is reduced pro-rata for staff working part time.

Maternity and sick pay

Statutory maternity (and paternity) pay will increase from £123.06 to £124.88 per week from April 2010. Statutory sick pay is currently £79.15 per week and is not due to increase in April.

Employment rights

Another change effective from 6 April 2009 is that temporary staff have the same employment rights after twelve weeks of employment as permanent staff. This includes pension, sickness and maternity rights.

PAYE Online Filing

From 2009/10, virtually all employers are required to file their Employer Annual Returns online. If you have not filed online previously you should take steps now to ensure you are ready to do so this year. The 2009/10 returns are due for filing by 19 May 2010.

If you would like help with the online filing process in the first instance please contact Nigel Utting on 01242 680000 or email nigel.utting@hazlewoods.co.uk



Superannuation Contribution Update

The NHS superannuation contribution tiers have changed and for 2009/10 are as follows:

Tier	Pensionable Earnings	Contribution Rate
1	Up to £20,709	5%
2	£20,710 - £68,392	6.5%
3	£68,393 - £107,846	7.5%
4	£107,847 plus	8.5%

The Dental Services Division (DSD) will estimate your tiered contribution rate and then any adjustment will be made once your actual pensionable earnings are known.

Where applicable, the added years earnings cap for 2009/10 is £123,600, up from £117,600 for 2008/09.

Associates

Care should be taken when deducting the superannuation contributions from Associates

now that the rates are tiered. It is possible that the DSD will underestimate the pensionable pay for an Associate, particularly where pensionable pay is around the tier limits. This could result in monthly contributions being too low for the year. If the Associate leaves before the annual reconciliation has been undertaken it could be difficult to recover the additional contributions due.

Realise Capital Gains before the tax rate potentially rises



It is widely predicted that the rate of capital gains tax (CGT) will rise in either a pre or post election Budget. This gives investors a chance to realise their gains efficiently in the months prior to the change.

Anomaly between income tax and CGT

It seems surprising that the wide difference in rates between the higher rate of income tax and the rate of CGT has not been closed in the last couple of years. Even more bewildering is that the difference is being increased from April 2010 when the CGT rate will remain at 18% and a super tax rate of 50% is being introduced for individuals with taxable income exceeding £150,000.

It is just possible that the Government will announce an increase in the rate of CGT at an early Budget prior to the election. However it is much more likely that the Government in power after the election will make the change in their first full Budget.

Notice of a CGT rate rise

Given that a rise in the rate of CGT is almost inevitable the only question is when will the rise be announced and will there be any prior warning. The main political parties are obviously gearing up for the election so it is just possible that we will get an insight into their proposals for CGT in the coming weeks. However, unlike stinging the bankers for large tax bills, increasing the CGT rate does not seem like a big vote winner. It therefore seems likely that a CGT rate rise will be announced either in the summer of 2010 or the spring of 2011.

Assuming the CGT rate is going to rise there are planning opportunities.

Top three options for investors

- Investors could sell up their assets and realise their capital gains now. This would enable them to take advantage of the

currently low CGT rates.

- Tax restructuring of a business in advance of a sale which is to take place within two years could crystallise capital gains at the current rates. It could then be decided at a later date whether to pay tax now at the current rates or at a later date at the future rate.
- Another tax planning structure can be used to trigger current tax rates on a future disposal of an asset, although the tax will not be payable until the asset is actually sold.

Conclusion

It is impossible to predict the future, but a hike in the rate of CGT seems almost inevitable. Think about your position now, whilst rates are still low, and discuss it with us.

New Tax Penalty Regime

From 1 April 2009 HM Revenue & Customs (HMRC) have introduced one system of penalties across almost all taxes. This applies if your return or other tax document is inaccurate and as a result you do not pay enough tax. Under the new system penalties will depend on the amount of tax under-declared and the reason for the inaccuracy. As long as you take 'reasonable care' to get things right you will not be charged a penalty, but the

more serious the reason for the inaccuracy the higher the penalty can be.

For further information please visit the Tax News section of our website www.hazlewoods.co.uk

Further restrictions on pensions tax relief

The 2009 Pre-Budget Report announced even more restrictions to the new anti-forestalling rules.

Extension to incomes of £130,000 or over

From 9 December 2009 (the date of the Pre-Budget Report), the anti-forestalling measures applying to those with incomes of £150,000 have been extended to include those with incomes of £130,000 or more.

Clarification of the term 'income' for the £130,000 threshold

The Pre-Budget Report advised that the income definition for the £130,000 threshold includes the value of employer pension contributions. Apparently this had always been the case, but the previous wording had been ambiguous.

£130,000 'floor'

In conjunction with the threshold extension above, tax relief for those with incomes below £130,000, before the inclusion of employer pension contributions, will not be restricted.

Restrictions from 6 April 2011

In the 2009 Budget, the Chancellor announced that he would be restricting tax relief for high earners for pension contributions. The new rules are due to come in from 6 April 2011 onwards. The anti-forestalling rules were introduced to prevent high earners accelerating

pension contributions now.

In the Pre-Budget Report, the Government launched a consultation on the introduction of the restrictions from 6 April 2011. The main proposals in the consultation are that:

- Those with gross incomes of £180,000 or more will have tax relief restricted to basic rate on all pension contributions.
- Those with gross incomes of between £150,000 and £180,000, will have tapered tax relief.
- The Government is consulting on the way the taper will work.
- The restrictions will apply to all contributions to money purchase pension schemes.
- For defined benefit pension schemes, the restriction will apply a 'deemed' contribution which will be calculated to reflect the value of the pension accrued. The Government is consulting on how the deemed contribution is to be calculated. The tax relief restriction will be recovered through the Self Assessment system.
- Those affected will be individuals with "gross taxable income" of at least £150,000 and "relevant taxable income" of at least £130,000, where "gross taxable income" includes both personal and employer pension contributions and "relevant income" includes only individual contributions.



Action

If you think you will be affected by the current anti-forestalling rules or the restrictions being introduced on 6 April 2011, please contact Stephen Dick on 01242 680000 or email stephen.dick@hazlewoods.co.uk



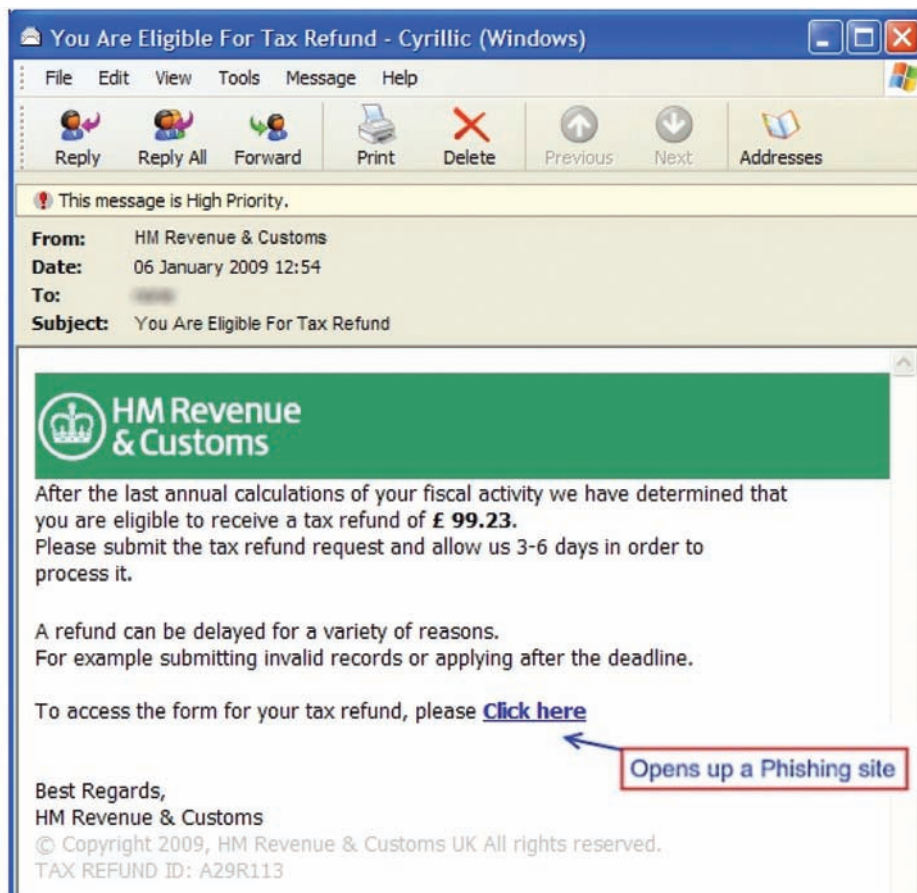
Stephen Dick
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E-Mail Scam Update

As some of you may have experienced, there are various e-mail phishing scams doing the rounds at the moment. The e-mails look genuine and often include the HMRC logo. Two examples are as follows:

- You receive notification that you are due a tax refund and are asked to follow a link and enter personal data to obtain it.
- You receive notification that you have an ALERT message on your account and you should log in to retrieve this message, again by following a link.

HM Revenue and Customs would never issue notification of a rebate by e-mail. If you receive an unexpected e-mail such as those described above do not follow the link. The email should be forwarded to HMRC at phishing@hmrc.gsi.gov.uk



Company Corner

For those of you who have incorporated your practices, the following will be of interest.

Directors' Service Addresses

Since 1 October 2009 company directors have been able to choose a service address in addition to their usual residential address. Both addresses would need to be notified to Companies House, however it is only the service address that would be available to the general public. The residential address would only be disclosed to public authorities and credit reference agencies.

A typical example of a service address would

be the company's registered office, which might be the practice address or the company accountants' offices.

Filing deadline shortened

For accounting periods commencing on or after 6 April 2008, the filing deadline has shortened from ten months to nine months after the accounting period end. For companies with a 31 March year end, this will apply for the 2010 accounts, which will need to be filed by 31 December 2010.

The rules are slightly different for a company's first accounting period. If you would like

further information please get in touch.

Filing concession scrapped

The 14 day grace period for delivering corrected accounts where these are rejected has been scrapped. If, for example, accounts are submitted on the last filing day and are rejected by Companies House, then a filing penalty will be applied. Companies House now require documents to be signed in black ink, so signing in blue could be a reason for rejection.

Our dental team are happy to discuss matters arising from this newsletter, as well as any other issues relating to your business or personal affairs.

The services we provide include:

- Accounting and bookkeeping
- Taxation and compliance planning
- Management accounts
- Business planning and practice review
- Computer software advice to include installation and training on Sage
- Financial planning
- Payroll assistance to include bureau service
- Benchmarking and practice profitability advice
- Partnership changes
- Incorporation



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This newsletter has been prepared as a guide to topics of current financial and business interest. We strongly recommend you take professional advice before making decisions on matters discussed here. No responsibility for any loss to any person acting as a result of this material can be accepted by us.

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