Spring 2013

Dental Focus

A fresh approach to achieving lifelong prosperity

Contents:

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Tax changes = Tax opportunities?

With a new tax year approaching, now is a good time to take stock of some of the tax changes taking place and review possible opportunities available to you:

- Annual Investment Allowance increased from £25,000 to £250,000 on 1 January 2013, for a period of two years (full article later in this issue)
- Main rate of corporation tax to reduce to 21% from April 2014
- Pension annual allowance down in April 2014 from £50,000 to £40,000
- Pension lifetime limit down in April 2014 from £1.5m to £1.25m
- ISA limit to increase to £11,520 from April 2013
- Higher rate threshold, capital gains tax annual exemption and inheritance tax nil rate band restricted to 1% increase per year, for the next two years
- Personal allowance to increase to £9,440 from April 2013

Corporation tax to reduce to 21% from April 2014

For a standalone company with taxable profits up to £300,000 per annum, the rate of corporation tax is set to continue at 20%.

For those standalone companies with taxable profits above £1.5m, the main rate of corporation tax is still set to reduce from 24% to 23% from April 2013. The Chancellor announced further good news in that a further reduction to 21% is planned from April 2014.

If a company's profits sit in the "marginal" band (between £300,000 and £1.5m) the effective rate of tax on profits above £300,000 is currently 25%, reducing to 23.75% from 1 April 2013 and further reducing to 21.25% from 1 April 2014.

The continued reduction in corporation tax rates is certainly a welcome one and is in contrast to what many believe are still relatively high levels of income tax, therefore there may be significant tax savings arising from incorporation.

Pension allowance down in April 2014 from £50,000 to £40,000

Every individual is currently entitled to an annual allowance for pension contributions of £50,000 per tax year, whether made personally and/or by a company. An individual's annual allowance is increased by the amount of any unused allowance in the previous three tax years.

In theory, the maximum contribution is therefore up to £200,000 - this may be unlikely in practice, but hopefully it illustrates the point. The annual allowance is set to reduce to £40,000 from April 2014.

For defined contribution schemes it is the contributions actually paid in the year which count towards the limit. However, the NHS superannuation scheme is a defined benefit scheme, so it is the increase in value of your NHS pension fund which counts towards the limit, not the superannuation contributions paid.

High NHS earners are due to receive statements from NHS Pensions by October 2013 if they are affected by the £50,000 limit. However this is only for the NHS superannuation scheme, so if other pension contributions are made a statement may need to be requested.

The reduction in the pension allowance, coupled with recent and proposed changes to superannuation contribution rates (see later article), have resulted in significant additional costs of being a member of the NHS pension scheme.

If you are considering making significant pension contributions in the next year or so, take advice so that you make the contributions in the most tax efficient way.

Pension lifetime limit down in April 2014 from £1.5m to £1.25m

The maximum value of an individual's pension fund, accumulated over their lifetime, is due to reduce from £1.5m to £1.25m from April 2014. If the value exceeds the lifetime limit a tax charge will be payable on the excess.

ISA limit to increase to £11,520 from April 2013

The tax free ISA limit is set to increase marginally from £11,280 to £11,520 per tax year from April 2013. Of this £5,760 per tax year (up from £5,640) will be able to be saved in a Cash ISA.

Marginal increases they may be, but at least they are increases!

Increased Annual Investment Allowance now available

The Annual Investment Allowance (AIA) available for capital allowances increased from £25,000 to £250,000 from 1 January 2013, for a period of two years. This means that the amount spent on new equipment which will obtain a 100% deduction against taxable profits in the year of expenditure has potentially increased.

However, when planning the timing of expenditure, a business needs to consider its accounting year end date and what other expenditure has been incurred in the financial year, as the manner in which the increased AIA is available means that it is not available to all businesses that spend £250,000 on new equipment straight away.

How much of the increased allowance is available?

In line with how changes in the AIA have previously been implemented, the allowance available depends on the accounting year end of a business and what expenditure has been incurred in that year.

For example, a business with a March year end will only be eligible for a maximum AIA of £81,250, even if it has incurred no other eligible expenditure during the year ended 31 March 2013. This is because for nine months of the year the AIA was only available at a rate of £25,000. Therefore, the AIA available will be 9/12 x £25,000 plus 3/12 x £250,000.

Furthermore, for any expenditure incurred from April to December 2012, the maximum AIA available is only £18,750, being £25,000 x 9/12.

A business with a year end in the early part of 2013 that is planning significant expenditure on equipment in the early part of the year should consider delaying the expenditure until the start of its new financial year in order to obtain the full £250,000 AIA. For example, a business with a March year end that incurred £250,000 of eligible expenditure in April 2013 would be eligible for AIA on the full amount. This is a significant increase on the £81,250 that would have been available on expenditure incurred in March 2013.

Subject to certain conditions, it may be possible to change the accounting year end of a business in order to accelerate the increased AIA available. For example, a business with an accounting year end of March could change it to December. For a business operating as a sole trader or partnership, this will depend on the profits that are likely to be made, as the rules for assessing taxable profits may mean that the benefit of the increased AIA is reduced. A company would find that its corporation tax liability is brought forward by three months.

Relevant date of purchase of equipment for capital allowances

If an asset is being purchased outright, with no finance, the acquisition date for tax purposes is the date that the invoice is issued. However, extended payment terms cannot be available. If there is a gap of more than four months between the invoice date and the date on which payment is required to be made, the expenditure is not incurred until the date on which payment is required to be made.

If an asset is being financed by a hire purchase agreement, the acquisition date for tax purposes is the date that the asset is brought into use. Therefore, the equipment must have been delivered before the year end for a tax deduction to be obtained in that year.

Possible restriction of tax relief

Currently, a trading loss can be set against other income in the same tax year or the previous tax year. For companies, it is the same accounting period or the previous 12 months. Therefore, if the increased AIA creates a tax loss it is possible that this may generate a tax refund, as the loss will be available to set against profits previously made.

However, for individuals trading as a sole trader or in a partnership, it is expected that from 5 April 2013 there will be restrictions on their ability to set trading losses against other income in the current or previous tax year. The ability to set off a trading loss will be restricted for each individual to an amount of the greater of £50,000 or 25% of total income.

As a result, where a loss allocated to an individual is more than £50,000, relief for the loss against other income may be restricted where the relevant accounting period ends after 5 April 2013. The loss may be relieved against future trading profits, but these profits may only arise in several years' time.

Planning expenditure to take advantage of the AIA needs to be considered carefully where trading profits are likely to be low.

Going forward

The increased AIA is good news for businesses that are planning to buy new equipment in the near future. However, the date of any expenditure needs to be planned carefully in order to maximise the available tax allowances.

As indicated above, the availability of the £250,000 increased AIA will depend significantly on the year end for each business. Delaying planned expenditure until the next financial year may prove beneficial. It may also be possible to change the year end of a business in order to accelerate the availability of the increased AIA.

The decision on expenditure to maximise the tax allowances available is not a "one size fits all" decision. Please do not hesitate to contact us if you would like to discuss your planned expenditure on plant and equipment and how this can be structured in order to maximise the available tax allowances.

Are you paying too much tax?

Fixtures and Fittings in Dental Surgeries

There are many items in a dental surgery on which capital allowances can be claimed. These include items which are integral features of the building itself, such as heating, lighting, cabling, pipework and air conditioning. As capital allowances reduce the taxable profits of a business they are extremely valuable, as there is no other relief for the cost of a building prior to its sale. With the temporary increase in the Annual Investment Allowance to £250,000 for a period of two years from 1 January 2013, it is possible that such items will attract a 100% deduction against taxable profits in the year of purchase.

We have advised many clients on the claims which can be made and saved them significant amounts of tax. There are opportunities for claims where a second-hand building was bought, even if the purchase contract allocated a proportion of the sale price to fixtures and fittings. Even if a claim has not been made in the past it is still possible to make a claim now.

Joint elections

However, the opportunities for such claims are now more restricted. This is because the 2012 Finance Bill requires a formal record of agreement ('ROA') for property transactions occurring from April 2012 to be submitted to HM Revenue & Customs. The ROA will show how much of the purchase price relates to fixtures. As this joint election is irrevocable, the purchaser cannot subsequently try to allocate as high a proportion of the price as possible to such items to reduce their taxable profits.

The ROA has to be submitted within two years of the transaction, otherwise no capital allowance claim can be made by the purchaser. However, HMRC will not accept a claim without the ROA being submitted. In practice, this means that the ROA will be prepared at the same time as the other sale documents. At that stage there is an incentive for both the purchaser and vendor to complete the election, whereas trying to get documentation signed by both parties several months after the transaction may prove difficult, if not impossible.

One can anticipate that there will be some interesting discussions as to the market value of the fixtures in the building. The vendor will probably want a low value to maximise his claim to capital allowances, whereas the purchaser will want a high value for the same reason. Whether purchaser or vendor, you will need to ascertain which items can be treated as fixtures for capital allowance purposes.

Future changes

A further change comes into force in April 2014 when the vendor will need to have claimed capital allowances on fixtures before the purchaser can make a claim. Although this additional requirement does not come into force for over a year its impact is already being seen. For example, estate agents are now including capital allowances information within their sales material, lack of such information may cause a prospective purchaser to make a lower offer for the building.

How we can help you

If you have purchased a dental surgery or had a surgery purpose built or refurbished in the past, no matter how long ago, now is the time to review your circumstances in order to maximise your capital allowance claim and reduce taxable profits.

If you are having your own dental surgery built, or are extending existing premises, then you will not be affected by this new legislation until you come to sell the property. In the meantime however, it is still important to identify those items which can be treated as fixtures, together with their cost, so that a capital allowances claim can be made.

If you wish to discuss this further please contact Peter Fox, Senior Tax Manager, on 01242 680000 or e-mail peter.fox@hazlewoods.co.uk.

2012/13 pensionable earnings declarations

Revised guidance to the NHS pension scheme for dental practitioners was published in December 2012. This expanded guidance includes detailed examples of how pensionable earnings should be calculated.

The following are typical errors made when completing the declarations:

- Not using the correct contract value. In our experience contract values are not always updated, even for inflationary increases, so check the figures carefully to ensure you are not missing out.
- Correct allocation of earnings between dentists. The net NHS pay for all the pensionable and non-pensionable performers (associates) must be considered first. Any balance is available for a provider (principal), or for division among partners (if a partnership). If the provider is a limited company, the balance is available for distribution to dentist shareholders/directors provided they are paid salary/dividends to cover their pensionable earnings. Remember, if one dentist has opted out of the superannuation scheme it is illegal for another dentist to claim this work as their own pensionable earnings.
- If an associate has incorporated (i.e. trades through their own limited company) they cannot be a member of the NHS Pension Scheme as the scheme's regulations do not permit this.

NHS pensionable earnings declarations for 2012/13 should be submitted by 31 May 2013. If you are a member of the NHS pension scheme, check the pensionable earnings declarations and/or the annual statement (form SD86c) issued in the summer to ensure the figures are correct.

If you would like assistance with the declarations, please do not hesitate to get in touch.

Superannuation contributions - proposed changes

Further increases to superannuation contribution rates are proposed from April 2013. These are subject to parliamentary approval and are summarised as follows:

Tier	Pensionable earnings	2012/13 contribution	2013/14 proposed contribution	Percentage increase	Percentage increase 2011/12
1	Up to £15,278.99	5%	5%	0%	0%
2	£15,279.00 to £21,175.99	5%	5.3%	6%	6%
3	£21,176.00 to £26,557.99	6.5%	6.8%	4.6%	4.6%
4	£26,558.00 to £48,982.99	8%	9.0%	12.5%	38.5%
5	£48,983.00 to £69,931.99	8.9%	11.3%	27%	73.8%
6	£69,932.00 to £110,273.99	9.9%	12.3%	24.2%	64%
7	£110,274.00 and above	10.9%	13.3%	22%	56.5%

In 2011/12 a dentist with £50,000 of pensionable earnings would have contributed 6.5%. In two years the level of contributions will have increased by nearly 74% to 11.3%.

The above changes are the second year of a three year review period. Further changes may therefore occur in 2014/15, although these are yet to be determined.

Tax avoidance or evasion?

Much has been written in the press in recent months regarding tax schemes, certain celebrities and large corporates paying little or no UK tax. The morality of this has also been called into question. So what can be done?

The first step is to distinguish between avoidance and evasion. Tax evasion is deliberately not declaring earnings to HMRC. Clearly this is illegal.

However, tax avoidance is something practised by most people at some point. One of the most common ways to avoid tax is to invest in an ISA, which means no tax is payable on any income earned or capital gains made by those investments. This is perfectly acceptable to most people. Similarly, timing expenditure to maximise allowances, for example the Annual Investment Allowance, is another example.

So how far can this principle be taken? Most taxpayers will be guided by their own sense of right and wrong, together with a balance of risk and reward. By their nature, tax schemes are very complicated and if this is something you wish to pursue ensure you have all of the facts to make an informed decision. Remember the old adage, if it seems too good to be true it probably is!

New legislation

The Government is planning to introduce a new General Anti Abuse Rule (GAAR) in the Finance Bill 2013, together with a £50,000 limit (or 25% of earnings, whichever is higher) for income tax relief. These measures are designed to counter arrangements which are only entered into to save tax and target complex or novel arrangements which could not have been foreseen when tax legislation was drafted.

Refresher - recent changes

Here is a quick refresher of some recent changes and announcements. Full details are available from our website **www.hazlewoods.co.uk**

Budget 2012

There is still time to take advantage of measures announced in the 2012 Budget. For example, for those earning more than £150,000 the additional rate of tax will drop from 50% to 45% from 6 April 2013. Consideration should be given to deferring income (where possible), paying additional pension contributions to obtain greater tax relief or accelerating capital expenditure. Please visit the tax section of our website for full details.

Child Benefit

Those of you affected by the changes which took effect from January 2013 should have received a letter from HMRC, together with a factsheet. As a reminder, if you or your partner earn more than £50,000 and claim Child Benefit you will be affected.

Depending on your circumstances, there may be some planning opportunities to reduce the impact of the changes.

PAYE - Real Time Information

Real Time Information will commence in April 2013. This means that payroll information will need to be submitted to HMRC each time a worker is paid, rather than on an annual basis. Please visit the payroll section of our website for details.

Payment in lieu of statutory holiday entitlement

This is a reminder for employers of their obligations to provide paid annual leave to their employees.

The European Court ruled in June 2012 that the 'entitlement to paid annual leave must be regarded as a particularly important principle of EU social law'. The Court also confirmed that the 'purpose of entitlement to paid annual leave is to enable the worker to rest and enjoy a period of relaxation and leisure.'

In the UK, statutory annual leave, currently 28 days including bank holidays, is set out in The Working Time Regulations (1998). Section (9) of the legislation states:

> Leave to which a worker is entitled under this regulation may be taken in installments, but:
>
> (a) it may only be taken in the leave year in respect of which it is due, and
>
> (b) it may not be replaced by a payment in lieu except where the worker's employment is terminated.

Employers are advised to ensure that the contracts of employment they issue take into account their legal obligations to provide paid annual leave. This would also apply to any response to requests by their staff for payment in lieu of holidays or to roll holiday entitlement forward into the next year.

As with all matters of legislation and employment law you should take formal advice before taking any action.

Maternity allowance - claim what you are entitled to

Most pregnant self-employed dentists will be entitled to claim up to £5,282.55 (at current rates) of Maternity Allowance (MA) from their 27th week of pregnancy. MA is a tax free state benefit, payable for up to 39 weeks during and after pregnancy.

In order to qualify for MA you must satisfy the following two rules:

- The Employment Rule - you must have been employed or self-employed for at least 26 of the 66 weeks leading up to your baby's due date.
- The Earnings Rule - you must earn on average more than £30 per week during any 13 of the 66 weeks before your baby's due date.

If you meet these two criteria, you may be eligible to claim MA for up to 39 weeks at the lower of:

- £135.45 per week (at current rates); or
- 90% of your average weekly earnings (as calculated in the earnings rule above).

A claim can be made from the 27th week of pregnancy but the payments won't start until the later of the date you stop working or the 30th week of pregnancy.

You can apply for MA by completing form MA1, available from www.gov.uk. You will need to obtain form MATB1 (otherwise known as a maternity certificate) from your doctor or midwife to support your application.

During your MA period, you can work for up to 10 days, known as Keeping in Touch (KIT days). KIT days enable you to keep up to date with practice developments, undertake CPD and ease your transition back to work. If you return to work before the end of the 39 week period you must inform the Department of Work and Pensions (DWP) and the benefit will cease.

If you are also employed and through employment are entitled to Statutory Maternity Pay (SMP), you will not be eligible to claim MA.

Further information can be found on the DWP website, www.dwp.gov.uk.

Hazlewoods Dental Team

Graham Rew Partner
t: 01242 680000
e: graham.rew@hazlewoods.co.uk

Nigel Utting Director
t: 01242 680000
e: nigel.utting@hazlewoods.co.uk

Gemma Sterry Accounts Senior
t: 01242 680000
e: gemma.sterry@hazlewoods.co.uk

Claire Bywater Accounts Senior
t: 01242 680000
e: claire.bywater@hazlewoods.co.uk

Services

Our dental team is happy to discuss matters arising from this newsletter, as well as any other issues relating to your business or personal affairs. Our dental team is based at our Staverton office.

- Accounting and bookkeeping
- Taxation and compliance services
- Management accounts
- Business planning and practice review
- Financial forecasts
- Computer software advice to include installation and training on Sage
- Financial planning
- Payroll assistance
- Advice on buying or selling a practice
- Benchmarking and practice profitability advice
- Partnership changes
- Incorporation
- Tax planning

Hazlewoods Dental Team

Staverton Office:
Staverton Court
Staverton, Cheltenham, GL51 0UX
Tel: 01242 680000 Fax: 01242 680857

www.hazlewoods.co.uk