Planning ahead

Martin Murray discusses the issues surrounding a practitioner's choice of their year-end, including tax and lifetime allowance

Many cosmetic doctors—whether practising as self-employed individuals, in partnership or through a limited company—have financial accounts with a 31st March year-end. The choice of year-end is dependent on a number of factors.

First, it is advisable for any business to plan ahead and determine whether any equipment or other assets are required. By deferring the purchase until just after the year-end, tax allowances will be delayed for at least another year.

There are accelerated allowances available at present for a wide variety of equipment with 100% tax relief. This relief comes under the annual investment allowance, and eligible items should be discussed with an accountant. Do not exclude any items that may also be used personally—these may be claimed, albeit, with some restrictions.

Second, practices should determine whether they have claimed all allowable and eligible expenses. For example, a salary can be paid to a spouse provided he or she has some involvement in the practice, such as dealing with administration at home. A salary can still be paid, even if the spouse is employed elsewhere—the PAYE code of the spouse's main employer just needs to be amended.

Check with the accountant the maximum amount that can be paid without having to set up a separate PAYE scheme. More importantly, for spouses not employed elsewhere, check the benefits of setting up a PAYE scheme with the spouse's eligibility to the state second pension. If set up correctly, neither the cosmetic doctor as the employer nor the spouse need to make any national insurance contributions, but they still retain eligibility for the state second pension. A salary scheme can still be set up for the last month of the tax year and treated as if it had been in operation for the full year. The payment of a salary can also, in some cases, reduce indemnity insurance payments. Cosmetic doctors with limited companies should discuss the timing and payment of dividends with their accountant.

Practitioners operating as self-employed individuals who have seen a downturn in earnings, and have a financial year not ending on the 31st March or 5th April, should seriously consider changing their financial year-end to the 31st March. Depending on when the practice started and the initial profits, tax relief may be available by changing the year-end for accounting and tax purposes to 31st March. This is a complex area that needs detailed planning and advice. Practitioners should be aware that any change can be undertaken retrospectively within a certain time.

Pensions

Pensions have, in recent years, received some adverse publicity. But for tax purposes, they provide good year-end planning. Depending on the pension period for the private scheme, twice the annual allowance can effectively be paid in one tax year. For example, for the tax year-ending 5th April 2009, the annual allowance is £245,000—this is the maximum amount that can normally be paid in a tax year for full tax relief.

But if the pension scheme input period does not correspond with the 5th April, two lots of £245,000 can be paid in two pension input periods that happen to straddle one tax year—as a consequence, the pension ceiling can be lifted to effectively £490,000! This allows great flexibility in planning for high earners. A similar type of planning can be undertaken for pensions paid by limited companies. Detailed advice, specific to individual requirements, is needed for any pension planning.

On the issue of pensions, Alistair Darling's pre-budget report stated that the lifetime allowance for pension purposes would not be reviewed until 2015/2016. Originally, this was to be reviewed in 2010/2011, when it would be determined if the lifetime allowance would be increased from £1.8m. Cosmetic doctors should, therefore, revisit whether they should apply for pension protection, to avoid the tax recovery charge of 55%, should the capital value of all pensions at retirement exceed the lifetime allowance.

There are two types of lifetime allowance protection. Primary protection is available in practice to few individuals. To be eligible, the capital value of pension funds from all sources—including the NHS—should have exceeded £1.5m on the 6th April 2006.

The second type of protection is known as enhanced protection. This is available to all individuals irrespective of the value of their scheme, providing that after the 6th April 2006 no further contributions have been paid into a private pension fund. This type of protection should be considered by cosmetic doctors still in the NHS.

An annual NHS pension that exceeded £78,250 from 2010/2011 onwards would, for the deemed excess, suffer a present recovery tax rate of 55%. Although £78,250 seems an enormous sum, the review for increasing the lifetime allowance has already been deferred. If it is deferred again, combined with anticipated increased inflation, this could mean that if they do not act before the deadline of 5th April 2009, some younger cosmetic doctors may suffer additional tax in the future. As for all planning, specific advice is needed and the above represents only a few planning opportunities to be considered.

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