

## STARTING A PRIVATE PRACTICE

# Easy wind down to retirement

It's worth being aware right from the outset how you might wind down your practice. **Martin Murray** gives a brief guide

THERE COMES a point in every consultant's professional life when he or she wishes to take things easier.

The kids have left and financial pressures of school and university fees are now a thing of the past. Retirement from the NHS is looming and thoughts turn to winding down the private practice.

What plans and action, if any, should be implemented to make sure that there is a smooth transition into retirement?

## Planning – NHS

In the not too distant past, some consultants had flexibility to reduce NHS sessions and, in some cases return, to the unit as a locum when no suitable replacement could be found. Those days are gone now and while some form of reduction in programmed activities may be available, there is generally no scope to return, due to the increased number of candidates for particular posts and also the financial needs of the trusts.

The first matter to address is the anticipated pension that you will get. Your relevant NHS Pensions Agency should be contacted.

From 1 April 2008, changes to the NHS Pension Scheme have allowed consultants to increase their lump sums by a process known as commutation. In essence, part of the annual pension is sacrificed for a larger lump sum.

In the absence of commutation, the lump sum is three times the annual pension. This can be increased within certain limits by sacrificing part of the annual pension for an additional lump sum.



For consultants involved in preparing medico-legal reports, the winding down of this side of the private practice can take a long time



The lump sum is increased by £12 for each £1 sacrificed. The lump sum, including any increments, is tax-free.

For example, a consultant with a pension of £55,000 would be entitled to a lump sum of £165,000. He or she could increase the lump sum by approximately £129,000 to give a total lump sum of £294,000 with a now-reduced annual pension of £44,250.

The widow/widowers pension is based on the original annual pension of £55,000 and not on the reduced annual pension. For many consultants this provides an added cash boost with continued protection for the surviving spouse.

In some circumstances, when a consultant may suffer a recovery tax charge of 55% on his or her pension, the process of commutation can reduce or extinguish this tax liability. The use of this should be discussed with your accountant and financial adviser, as this can provide huge benefits.

## Planning: private practice

Certain specialties have a considerable number of repeat referrals and, in such cases, more and more consultants are seeking payment from other colleagues on the basis that these patients are passed over to them. In essence, it is the sale of goodwill. Serious consideration should be given to this subject, which is dealt with in *Selling Your Practice*, an *Independent Practitioner Today* supplement available by phoning 01752 312140.

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Smooth descent: There are many financial pitfalls to circumnavigate when consultants plan to look forward to retirement

winding down of this side of the private practice can take a long time, as repeat requests from solicitors and other interested parties may be received several months later on the same patient.

It is vital that any reports that may not be paid are identified and claimed as bad debts.

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Basically, depending on the financial year-end of the private practice and when cessation occurs, it can in some circumstances mean that tax is still payable for nearly a year after the private practice has ended.

Most calculations centre around whether retirement should be pre- or post-5 April, as this may have a significant impact on when and how much tax is actually paid.

For consultants with non 31 March or 5 April year-ends, it is vital that the accountant has kept a record of what is known as 'overlap relief'. For consultants with non 31 March or 5 April year-ends that were in private practice before 1996, the 'overlap relief' is represented by their share of taxable profits from the end of their financial year to the 5 April 1997. For consultants who started after

this date, the same principles apply.

Take, for example, a consultant with a 30 June year-end, then his or her 'overlap relief' would equal the proportion of taxable profits from 1 July 1996 to 5 April 1997. The amount calculated is deducted from his or her final earnings and, for many consultants, provides a big cut in their tax bill.

## Employing spouses

Many consultants employ secretaries, which may also include their spouses. In these circumstances, there is great scope to take advantage of certain pension provisions which can provide huge benefits as a family unit.

Basically, most consultants, when they pay a pension on behalf of their spouse, operate this as a money-purchase scheme; that is, the final pension is based on how well the funds have been invested.

The scheme can be altered to a final-salary scheme, which requires an actuary and can result in a large lump sum being paid by the consultant with tax relief at 40%. The spouse is then entitled to take a tax-free lump sum of 25%.

With careful planning, the final salary can be increased in the last

couple of years, allowing more pension to be paid.

For example, a consultant switches the pension scheme to a final-salary one and pays £30,000 into a pension on behalf of his or her spouse. Tax relief of £12,000 is obtained.

The £30,000 is invested into the pension and the spouse can take £7,500 as a tax-free lump sum. Of the £30,000 paid into the pension, the consultant and his or her spouse get £12,000 as a reduction of tax together with £7,500 as a tax-free lump sum.

This is good, as only £10,500 has been invested, whereas the net amount upon which the annual pension is based is now £22,500.

In certain circumstances, redundancy payments may also be possible, which again can provide substantial benefits as a family.

Consultants approaching retirement should not ignore buying equipment, as accelerated capital allowances are available and although adjustments have to be made for tax purposes on these items after the cessation of the practice, they can still be beneficial. ■

*Martin Murray is a partner at Sandison Easson & Co, specialist medical chartered accountants*

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**Mr Lars Neumann**

Consultant Orthopaedic Surgeon

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