SIGNPOST 2

GP'S GUIDE TO MAXIMISING INCOME

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Acknowledgements

The Bureau of Medical Practitioner Affairs would like to thank all those people who have assisted in the preparation of Signpost, either by writing a section, by providing expert advice or by commenting on the work in progress.

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Signpost is published with the support of Stuart Pharmaceuticals Limited, Carr House, Carrs Road, Cheadle, Cheshire, SK8 2EG, researched and produced by the Bureau of Medical Practitioner Affairs, 18 Borough High Street, London, SE1 9QG. Tel: 01-407 4146.

1. Foreword

Success or failure as a general practitioner depends on more than the exhibition of clinical skills. By virtue of his independent contractor status the family doctor is also a business manager. He has to grasp the balance sheet no less successfully than the stethoscope. Although he may be aided by his own clerical staff and have professional accountancy advice, the GP must still set the policy and maintain a competent oversight of his financial affairs for his is the profit or loss at the year's end. Diligence is rarely rewarded so much as when it is applied to financial affairs, yet there are still many practices which would benefit from an updating of their financial management.

The publishers of *Signpost 2* are to be congratulated on their initiative in producing this most useful guide which provides the basis for a practical understanding of the complexities of taxation and the small businessman.

John G. Ball, FRCGP
Chairman, General Medical Services Committee

Spring 1983

2 Introduction

Anyone can save tax! It is not a particularly complicated exercise and does not require the display of a great deal of ingenuity. For the self-employed taxpayer, it is really quite simple: he either reduces his gross earnings or increases his allowable expenditure to a degree that reduces his taxable profits to such a level that the Income Tax he will be asked to pay is small, if not negligible.

By this means, he will certainly save tax, but whether he will finally be any better off is another matter. It is more likely that he will find himself with insufficient income to support himself and his family and that he will inevitably end up in 'queer street'. It is, in short, an almost certain short-cut to the bankruptcy court.

All this, may, at first sight, appear controversial – if not heretical, but we think we can show in the pages of this booklet some guidelines which will encourage you, as a GP, to save tax, without at the same time noticeably increasing your expenditure, with a consequent benefit to your overall financial position.

The answer is, of course, that the real – often unexpressed – purpose of tax-savings schemes is the quite praiseworthy one of saving money: a far more practical proposition and almost certainly a worthwhile exercise. It is also, of course, far more difficult to achieve in a proper and effective manner.

Do not be misled by the proposition that it is possible to spend money to save tax; you may well pay less tax, but you will almost certainly be out of pocket at the end of the day. If you, as a taxpayer with a top tax rate of 40 per cent, incur needless interest charges, overspend on repairs to your surgery or in buying unnecessary equipment, you will indeed pay less tax, but for every £100 you spend you will retain £60 less net spendable income.

The Independent Contractor

In the final analysis, your whole income and taxation position as a GP lies in your hard-won and much-valued engagement as an Independent Contractor to the National Health Service. It is this which confers upon you your standing as a self-employed professional man, as opposed to a glorified civil servant – a mere employee of the State.

Perhaps more importantly, it is this from which you derive your status as a Schedule D taxpayer, with all the advantages this brings, as we shall see. (see Chapter 4.)

With a subject as complex as taxation and incomes as complicated as the general practitioner's, it is possible to paint only a broad picture of the tax situation and to describe various schemes which will help the GP to avoid paying unnecessary tax.

Yet tax is not everything. Those of us with regular access to GPs' financial accounts and returns know that the ultimate reason for the difference between the affluent and the impoverished GP is most likely to be the efficiency with which he – or his staff – claim the whole host of fees and allowances to which he or she may be entitled.

In these pages we set out a brief guide to sources of practical income – where to find out about them, how to claim them and how much they are. Make sure you know and understand them; it may well make the difference between prosperity and penury. We then deal at some length with the tax position of the independent contractor, what you can and cannot claim, the complexities of partnership tax and other subjects relevant to maximising practice income while minimising tax.

There is no substitute, however, for experienced and knowledgeable professional advice, with emphasis on the two adjectives and you should not use this booklet as an alternative to seeking such advice. *It is essential for GPs to use the services of accountants accustomed to handling GP accounts, and well-versed in the intricacies of the Statement of Fees and Allowances (Red Book), as well as the intricacies of the tax system.*

3 GP Remuneration

3a NHS Remuneration

The principle on which GP remuneration has been increasingly based since 1966 is that of fees for work carried out – excluding the basic patient care which every general practitioner is expected to provide.

While many GPs feel that this principle could be extended further, they also realise that it has led to very complex calculations of practice income.

Those of you who are established GPs and who have already grappled with the system should move on at this point to whichever of our further chapters interest you particularly. As trainees or as young GPs who have recently set up in practice you may well find this brief exposition useful, but remember, it is by no means comprehensive. You should also study the *Red Book (Statement of Fees and Allowances)* which it is to the financial advantage of established practitioners to keep up to date.

Basic Patient Care

The *Basic Practice Allowance* goes to every GP who has a list of 1000 or more patients, or who is in a partnership with an average list of 1000 or more patients per practitioner, and who is in the family practitioner committee's (FPC's) view devoting a substantial amount of time to NHS general practice. The amount is reviewed annually under the Review Body arrangements (see page 12 *Red Book*).

The *Supplementary Practice Allowance* is paid to practitioners providing out of hours services subject to the same provisions as the basic practice allowance. (see para 22 *Red Book*).

Night Visit Fees are paid for visits to a GP's or his partner's patients between 11.00 pm and 7.00 am – and to temporary residents (see para 24 *Red Book*).

Standard Capitation Fees are paid for every patient at one of three rates, related to patients' age – under 65, 65–74, 75 plus. *Supplementary Capitation Fees* for every patient in excess of the first 1000 are paid irrespective of age. (see para 21 *Red Book*).

Special Payments

Practitioners eligible for the full basic practice allowance who are practising in a group will receive a *Group Practice Allowance* provided the group satisfies the *Red Book* provisions. (see para 15).

A *Vocational Training Addition* is paid to practitioners satisfying certain conditions about vocational training (see para 17 *Red Book*) until they become eligible for their first *Seniority Addition*. (see para 16 *Red Book*).

There are three such additions for length of service.

Employment of an Assistant attracts an additional payment under circumstances set out in para 18 *(Red Book)*.

A practitioner becomes eligible for a *Postgraduate Training Allowance* for completing a stipulated number of sessions according to the provisions of para 37 *(Red Book)*.

An approved trainer under the *Trainee Practitioner Scheme* receives a training grant and reimbursement of the trainee's salary, the employer's share of the trainee's National Insurance contributions and the trainee's car and other expenses (para 38 *Red Book*).

Rural Practice Payments are made to practitioners with at least 10 per cent of patients resident in Rural Practice Payment Areas and at least three miles distant from the main surgery. (para 43 *Red Book*).

Inducement Payments are available where a doctor practises in a sparsely populated area in which it is essential to maintain a medical practice. (para 45 *Red Book*).

Item of Service Fees

All the items outlined above are straightforward, but the fees for items of service can cause considerable confusion and many practices lose money by either not claiming them all, or not claiming them on time.

The most important, both financially and from the point of view of the responsibility involved, are the *Maternity Medical Services* fees. These are complex and study of the *Red Book* will show that it pays to be on the obstetric list. (para 31 *Red Book*).

With *Contraceptive Services* (para 29) it is essential to reregister patients annually – some practices miss out on this.

Similarly, *Vaccinations and Immunisations* fees (para 27) are not always claimed in full and on time.

Other items of service are *Cervical Cytology* (para 28), *Temporary Residents* (para 32), fees for *Emergency Treatment* (para 33), fees for *Services as Anaesthetist* (para 34), for *Arrest of Dental Haemorrhage* (para 35) and for *Immediate Necessary Treatment* (para 36).

The current fees can be easily seen by anyone with a British Telecom Prestel set, on the Meditel pages. Any doctor is eligible to register as a member of Meditel's Closed User Group in order to access them. See *567# on Prestel.

Important Reimbursements

The reimbursement of *Rent and Rates* has a long section of the *Red Book* devoted to it (para 51). It has been very important in enabling practitioners to practise from good premises without being penalised in favour of doctors providing minimal accommodation, as was the case when rent and rates came out of the practice income.

The same applies to *Direct Payments for Ancillary Staff*. Practitioners can employ up to two full-time staff on 'qualifying duties' and receive reimbursement of 70 per cent of their salaries. Again there is a long section (para 52) on this.

3b Other Sources of Income

There are very few GPs who derive their total income from NHS general medical services. A considerable proportion hold appointments as clinical assistants or hospital practitioners, working one, two or even three sessions a week in hospital.

There are a number of services, too, that attract fees from various sources. For social services or local authorities these are laid down. For other services there are fees recommended by the BMA to their members, although the doctor can vary these if he wishes. This is just one of the many reasons for joining the BMA.

These include examinations for cab drivers, racing drivers, heavy goods vehicle (HGV) drivers, public service vehicle (PSV) drivers and elderly drivers, and medicals for life assurance companies.

The Ministry of Defence pays fees for HGV drivers, examination of recruits, contraception for service women and so on. Social services pay fees for attendances at case conferences, adoption examination fees, examination of boarded out children.

Other organisations pay for adoption examinations, local authorities pay for examination of drivers or conductors, disabled drivers, for section admissions under the mental health act and so on, including schools sessions and social services sessions. Lecture fees are paid by a number of organisations and there are a considerable number of other activities which attract varying levels of fee. A full list is available on Prestel Meditel pages *567#.

Which all goes to show that you need to be a good businessman as well as a first class clinician. While employing staff to do the nitty-gritty of keeping records and making claims, you must understand them.

For the major business of looking after the large sums which flow through practices today expert help is essential but again you must understand the problems – at least in principle.

For the lifetime problems of the practice, of the home and the family, of how best to organise affairs so that income is maximised, tax minimised, and anticipatory precautions taken against future problems, again you need expert help and advice, so this booklet is not a Do It Yourself guide. It is a guide to the subjects on which to seek expert help and advice, with the basic information which should enable you to judge the quality of the advice you are receiving.

3c Work Out Your Practice Income

Unless you have a pretty good idea what the practice's NHS income will be in any given year you will find it impossible to gauge partnership withdrawals accurately, agree on staff salary increases or plan expenditure on improvements or equipment.

If you are not fully aware of your current position the chart will enable you to calculate it. If you are, you can use the chart to ascertain your future position following a Review Body award.

Unless there are likely to be substantial population changes you can calculate your capitation fees and various allowances with a fair degree of accuracy.

For the items of service you can base your calculations on your FPC quarterly returns over the previous years, by multiplying the number of patients receiving an item of service by the fee paid.

The practice must bear in mind that rates, water rates, gas and electricity charges are all certain to increase. Petrol has just gone up again, road tax and National Insurance charges too have increased, so some allowance should be made for these increased costs.

Practice Income Chart	No. of patients/ items	Fee	Total £s
Basic practice allowance (practice with 1000+ patients)			
Capitation fees Patients up to and including 64			
Patients 65 to 74			
Patients 74 plus			
Supplementary allowance (out of hours responsibility)			
Supplementary capitation fee (no of patients less 1000 per principal)			
Group practice allowance			
Seniority payments			
Training grant			
Postgraduate training allowance			
Vocational training allowance			
Designated area allowance			
Initial practice allowance			
Full-time assistant			
Dispensing capitation fee			
Dispensing drug tariff			
Rural practice payments			
Items of service			
Night visits			
Vaccination and immunisation			
Higher rate			
Lower rate			
Cervical cytology tests			
Contraceptive services			
Ordinary			
IUCD			
Maternity medical services			
Complete			
Full antenatal			
Full postnatal			
Temporary residents			
Up to 15 days			
Above 15 days			
Emergency treatment			
Services to anaesthetist			
Arrest of dental haemorrhage			
Immediate necessary treatment			
Sub-total			
Payment for hospital work			
Hospital practitioner grade sessions			
Clinical assistant sessions			
GP hospital payments			
Bed fund			
Casualty cover			
Full total			

4 Tax and the GP

4a Self-employed and PAYE

There are two distinct methods of taxing the earnings of individuals in the United Kingdom. Those in employment are taxed under Schedule E through the workings of the Pay-As-You-Earn (PAYE) system. It is probably safe to assume that most would-be general practitioners have some general experience of this from previous employment.

The second form of taxation is known as Schedule D. It relates under Cases I and II to the income of self-employed persons whether in partnership or alone, and is thus 'enjoyed' by general practitioners, as independent contractors, for the general medical services they provide.

The major differences between the two classes of taxation are **1.** the computation of the taxable income, **2.** the time of payment of tax.

1. Computation of Taxable Income

Expenses are allowable under the rules of Schedule E if they are *wholly, exclusively* and *necessarily* for the purposes of the employment. These criteria are not applied so strictly when it comes to Schedule D in that the word '*necessarily*' is dropped. This has the effect of making many more items of expenditure into allowable deductions before computing a taxable profit. Most of these are dealt with elsewhere in this booklet.

2. Date of Payment of Tax

Under PAYE tax is deducted at source from your income at the date of payment and any adjustments needed at the end of the year are sorted out by the Inland Revenue on the issue of an assessment at some later date, after submission of your tax return. It is, however, rare for there to be significant alterations. Any small underpayments are adjusted in the coding of the following year but one. Overpayments are repaid.

Under Schedule D it is much more complex. The strict rules are that the tax of a year's profit is payable in two equal instalments; on 1st January and 1st July following the 5th April following the year end.

This means that if accounts are made to 31st March 1982, tax will be payable in January and July 1983.

If however the accounting date is 30th April 1982, then the due date for payment of tax will be 1st January and 1st July 1984, because the assessment is based on the previous year's profits.

Since it is necessary to agree a 'profit' upon which a future tax liability will be based it is essential for you to ensure that proper books and records be kept.

Whilst it is normal to draw accounts for twelve months from the date a partnership of practice commences, it is quite possible and indeed normal to use this long time delay to advantage. In NHS general practice it is usual and practical for the practice year-end to be one of the normal quarter-days, ie 30th

June, 30th September, or 31st December, but preferably not 31st March. This is because, as pointed out above, tax would be payable sooner than if the year-end is one of the earlier dates. Obviously 30th June gives the longest time-lag between incurring the liability and actually paying the tax.

There are, however, special rules for payment of tax in the opening and closing years which mean that there is always a tax liability in January and July of each year, but it is invariably based on the profits earned in the previous accounting period, thus an early year when very low profit was achieved can be responsible for much reduced tax payments for the ensuing two or even three years.

The more complex matter of partnership changes which has relevance to this particular point is dealt with at a later stage in the booklet.

Because no two sets of circumstances will ever be the same it is clearly in your interests to consult a qualified and specialist accountant at an early stage in order to achieve the maximum advantage.

To sum up, the advantages of being a self-employed person are:

1. greater admissibility of expenses;
2. delayed payment of tax arising from the preceding year basis of assessment.

The disadvantages are:

1. the need to provide for a future tax liability and the ability to overspend in the meantime;

Table 1 Income Tax Rates 1983-84

	Band of Taxable Income £	*Rate %*	*Tax £*	*Cumulative Income £*	*Total tax £*
First	14 600	30	4 380	14 600	4 380
Next	2 600	40	1 040	17 200	5 420
Next	4 600	45	2 070	21 800	7 490
Next	7 100	50	3 550	28 000	11 040
Next	7 100	55	3 905	36 000	14 945
Balance		60		over 36 000	

Investment Income Surcharge

Over £7 100 – 15 per cent

Principal Personal Allowances 1983-84	£
Single person's allowance	1 785
Wife's earned income allowance	1 785
Married Man's Allowance	2 795
Additional personal allowance (single parents and recently bereaved widows)	1 010

2. the more onerous responsibility on your part to keep adequate records;
3. the complicated system arising from partnership changes; and
4. the possibility that, without care being taken, a partner can depart leaving a tax liability behind him.

4b Tax Payable

Tax is assessable on income after all expenses and allowances have been given. The principal allowances which will be available to you are personal allowance and loan or mortgage interest relief. The rates of personal allowance are shown in Table 1.

Income Tax is chargeable on the amount by which profits exceed these allowances according to the table. In addition the incomes of both parties to a marriage are added together to calculate the liability to higher rate tax. It may well be advantageous to consider making a Wife's Earnings Election, which has the effect of treating the parties as 'unmarried' for the purposes of their earned income only. This does not stop the aggregation of any investment income the wife may have with that of her husband.

Investment income is subject to a further charge to tax of 15 per cent on the amount by which it exceeds £7100 (1983–84).

The calculation of tax is not simple but in broad terms runs as illustrated in Table 2.

However if a practitioner's wife had an earned income of, say, £10000, the calculation would have involved much more liability. It is possible to claim a 'Wife's Earning Election' which will treat a couple as 'unmarried' for the purposes of earned but not unearned income. This election must be made or withdrawn within twelve months of the tax year. It is therefore essential to review the calculation at annual intervals and keep tax affairs up to date.

An illustration of the advantages is shown in Table 3.

Table 2 Adjusted Profits for Income Tax Purposes, 1983-84 for Year Ended 31st March 1984

	£	£
Income		20 000.00
Less personal allowance and	2 795	
Mortgage relief – say	4 500	7 295.00
(on mortgage over £30 000)		
		12 705.00
Chargeable		
£12 705 @ 30%		3811.50

Table 3 Advantages of Wife's Earnings Election 1983-84

	Joint	Separate Self	Separate Wife
	£	£	
Self	20 000	20 000	£
Wife	10 000		10 000
Gross income	30 000	20 000	10 000
	£	£	
Personal Allowance	2 795	1 785	
Wife's Earned Income Allowance	1 785		1 785
Mortgage Relief (Say)	4 500	4 500	
	9 080	6 285	1 785
Taxable income	20 920	13 715	8 215
Tax thereon	£	£	£
£14 600 @ 30%	4 380.00	4 114.50	2 464.50
£2 600 @ 40%	1 040.00		
		total 4 114.50	total 2 464.50
£3 720 @ 45%	1 674.00		
TOTAL TAX	£ 7 094.00	£6 579.00	

A saving of over £500!!

4c National Insurance

Finally, in addition to Income Tax you are liable for Class 4 National Insurance until the end of the tax year in which you reach the age of 60 (woman) or 65 (man).

This is levied, in 1983–84, as to 6.32 per cent of your profits over £3800 to a maximum of £12 000, this being a maximum liability of £516.60 per annum. It is collected by the Inland Revenue along with the Income Tax and is in addition to the liability to buy a Class 2 National Insurance stamp weekly at £4.40 per week.

The BMA has very useful guidance notes on National Insurance contributions for GPs and other self-employed doctors, which are available to members.

4d Allowances and Expenses

The Income Tax (fiscal) year runs from 6th April to 5th April annually. Thus the current fiscal year runs from 6th April 1983 to 5th April 1984 and is the year of assessment 1983-84.

Income Tax returns issued during 1983 are headed 'Tax Return – Income Tax Year 1983-84'. That tax year refers to the claim for allowances included in the Return, and to any income assessable during 1983-84 on a 'preceding year' basis which has actually been earned during the tax year ended 5th April 1983.

The Return is therefore completed to show *income* received during the year ended 5th April 1983, but the *claim for allowances* refers to the year ending 5th April 1984.

In this context, the term 'allowances' does not include such 'expenses' as you might claim against your practice income, such as car, house expenses, subscriptions, wife's salary etc. These are treated in effect as deductions before arriving at the profit, so that they are also allowed on the preceding year basis, in the same way as the income to which they refer.

4e Tax and Outside Work

1. Schedule E

Income assessable under Schedule E, from outside appointments, as part of the income of a partnership, can present problems if PAYE is deducted at source. The attitude of tax districts varies but the Civil Service Commission has been instructed to deduct PAYE from all fees paid to doctors – even extremely casual fees.

Doctors should therefore check all statements to ascertain whether tax has been deducted, and keep a careful record for the accountant. Civil Service Commission fees shown in 'computer language' should be queried.

The accountant should be asked to request the Inland Revenue to issue an NT coding, pointing out that tax is assessed under Schedule D on the whole of the practice income.

If outside appointments can be accepted in the name of the partnership instead of an individual doctor, PAYE cannot be deducted, so the problem is avoided altogether.

If National Insurance is being deducted along with PAYE it is important to check that the doctor is not overpaying on this. Repayment can be claimed where this exceeds prescribed limits.

2. Travelling Expenses

The Notice of PAYE Coding sometimes shows an adjustment for 'Car User's Benefit', collecting extra tax from those who claim travelling allowances.

To dispute this it is necessary to know:

1. The total mileage driven for all purposes during the year and the total mileage for which claims are made;
2. Whether the allowance is at 'standard' or 'regular' users rate, and the 'engine banding' applied;
3. The actual running expenses for the year, which every GP should be recording in order to claim for his car as part of his practice expenses.

4f Practice Expenses Claims

The claiming for income tax purposes of expenditure incurred by doctors in running their practices is one of the most contentious areas of medical finance to be encountered by the average GP or, more likely, by his accountant.

Stories are legion of outlandish claims submitted by doctors and agreed by the Inland Revenue, such as to encourage more claims of this nature. It is an area in which old wives' tales abound and where doctors frequently feel they are not being best served by their accountant, who is unable to agree a similar claim to that accepted for a colleague down the road.

The truth is likely to be that the practices are entirely dissimilar and what may well be a perfectly legitimate case for one doctor, may be quite unacceptable for another.

The whole matter is made even more complex in that local Inspectors of Taxes, who have a surprisingly large degree of autonomy over decisions made in their own districts, can differ widely in these. For instance, a claim admitted for a doctor in Bristol may be quite unacceptable to a local Inspector in Manchester.

Why the claim is allowed

As independent contractors within the National Health Service, general practitioners are treated as self-employed for Income Tax purposes. As such, they are assessed under 'Schedule D', which is really a section of the Income Tax Act which lays down the rules under which self-employed taxpayers are assessed.

Under these rules, you can claim such expenses as have been wholly and exclusively incurred in the performance of your duties.

Contrast this with the unfortunate position of your colleague in the hospital service, who is an employee of the health authority and as such assessed under Schedule 'E'. The only expenses he is likely to have allowed against his income are his medical subscriptions. Any other expenses will be allowed only if the Inspector can be persuaded that it is absolutely necessary for them to be spent in performance of the doctor's duties.

This is because the provision of the Act which lays down the rules for allowance against 'Schedule E' income states that these must be incurred wholly exclusively and necessarily in performance of those duties. It is that word *necessarily* which makes all the difference!

However you, by virtue of your Schedule D status, are not treated nearly as stringently as this and you should have little difficulty in claiming such expenses as your accountant can persuade the Inspector are reasonable costs of running your practice.

Thus, since it is necessary for you to have certain instruments in order to carry on your profession, these are quite clearly within the scope of the provision and allowable for Income Tax. Equally clearly, there are numerous items of expenditure which have nothing whatever to do with your profession and hence are not allowable for Income Tax purposes. Normal domestic expenditure, holidays, education expenses and similar items come under this category.

It follows that there are a number of expenses which cannot truly be said to be either wholly business or wholly private. In these cases, it is sometimes necessary for a proportion to be agreed with HM Inspector of Taxes dealing with the practice affairs and this should be negotiated for you by your accountant. The most usual examples of expense in this category are house expenses and motor car expenses.

In considering these expenses a point to bear in mind is that, under the Rules of Schedule D, you are assessed on the preceding year basis; that is to say, that for any year of assessment you are charged tax on income earned in the previous year. By the same token, expenses are treated similarly and will be allowed against profits earned in the same period. Just as you do not pay tax until a year later, so your expenses are allowed on the same time scale.

Illustration 1 Expenses Usually Paid by Partnerships

Surgery Expenses

Rent)
Rates) But all or most of these may be reimbursed by the FPC
Water Rates)
Lighting and heating – gas, electricity, oil etc
Insurance premiums
Repairs and renewals (but not improvements or extensions to the property)
Machinery, repairs and maintenance
Hire of equipment
Cleaning, garden expenses, etc

General Practice Expenses

Purchase of drugs, appliances etc
Equipment repairs, upkeep, maintenance and renewal
Salaries of reception, secretarial and nursing staff (including National Insurance) (But 70 per cent of qualifying ancillary help and 100 per cent of NIC can be reimbursed)
Locum fees
Relief service fees

Administration Expenses

Printing and stationery
Postage
Bank charges
Legal charges (in certain cases; but not for partnership deeds or for property transfers)
Accountancy fees
Telephone charges

Doctors in Partnership

It is normal for certain expenditure, usually in connection with surgery premises and running the practice generally, to be paid from partnership funds and divided between the partners in applicable ratios. See Illustration 1.

There will also be certain expenses which are paid by the partner personally and these will be included in a separate claim for personal practice expenses. These have no connection whatever with any other partner and the total will be allowed, after agreement with the Inland Revenue, against the partner's own share of the practice tax assessment.

Some practices choose to pay certain items from partnership funds which would normally be paid personally. Thus there are some practices where it is usual for telephone expenses, or medical subscriptions, or in certain cases motor car expenses, to be paid from the partnership. Most partnerships feel, however, that such is the difference in levels of expenditure for items of this nature that it is preferable for all concerned for them to be paid and claimed personally by the doctor involved. See Illustration 2.

A list is shown of certain items which are more regularly claimed by family doctors. It should be accepted, however, that certain of these, with the agreement of the partnership, might be paid either out of practice funds or by the partner personally. For instance, the cost of a

Illustration 2 Expenses Usually Paid Personally by Doctors in Partnership

House Expenses

Where the house is partly used for practice purposes it is normal for an agreement to be reached with HM Inspector of Taxes over the amount of the expenses to be claimed. This must be on the basis that accommodation is available and either within or adjacent to the practice area. It is recommended that a suitable plate be placed outside the premises and an appropriate entry made in the local telephone directory. Normal running expenses of the house are:

Rent	Repairs and renewals
Rates and water rates	Window cleaning
Lighting and heating	Domestic assistance
Insurance premiums	Garden expenses

Motor Expenses

It is usual to obtain relief for expenditure on one, and in some cases two cars. The proportion of private use is agreed by negotiation with the Inspector of Taxes, either on an arbitrary or on a mileage basis. Normal running expenses are:

Road fund licence
Insurance premiums
Petrol
Repairs, servicing, MOT tests etc, even car wash and parking fees
AA, RAC subscription, relay service etc
Finance charges
Interest on hire purchase or bank loans, apportioned throughout the period of the loan.

General Practice Expenses

Medical books, papers, periodicals
Medical subscriptions) In some circumstances these may be paid from
Private telephone charges) partnership funds and claimed accordingly
Private locum fees
Security expenses
Wife's salary
Wife's pension premiums
Waiting-room papers and flowers
Cleaning and laundry
Courses and conferences*
(Part) charges on private bank account

This is not intended to be an exhaustive list. Many claims will depend on the circumstances of the particular GP.

* The Inland Revenue may argue about the latter if there is a considerable holiday element or if the conference is not directly related to the running of an ordinary general practice.

burglar alarm may well be either at the surgery or at the doctor's private house. In any event, whoever pays will also claim the appropriate expenditure.

Solo Practitioners

Similar principles apply, but it is normal for all the expenditure to be included in a single account, rather than be divided between partnership and personal expenses.

You do not have the obvious complication of deciding what should be claimed by the partnership and what by the individual partner. After deducting all the expenses from the income of the sole practice, the balance will merely be your assessable profit for the year concerned.

In this general review of practice expenses, there are two points which should be mentioned, which often cause difficulty:

1. Capital Expenditure

Payments for purchase of capital assets, such as cars, surgeries and medical equipment, cannot be included in a claim for practice expenses as they are not part of the cost of running the practice. However, in certain cases capital allowances can be claimed on these. In the case of purchases of medical equipment, machinery, furniture, etc a 100 per cent first year allowance can be claimed, the effect of which is identical to including it in the actual claim.

There is a substantial tax benefit in making such purchases immediately before the *accounting* year end (not *tax* year end) in order to bring forward the available relief. The same applies to such revenue expenditure as can be timed, such as repairs and renewals.

The other chief item of capital expenditure for you would be your cars, which cannot be claimed directly, but for which a partial claim can be made each year. This will be dealt with more fully in the article on motor expenses claims. No claim can be made for expenditure on the erection, improvement or extension of surgery premises.

2. Loan Interest

Broadly speaking, there are two categories of loans which are normally raised by GPs. The first of these is advances to pay for the purchase of practice assets (for example for a car used in the practice, for a share of the surgery or for buying equipment). The interest on these loans is allowable in full, although if there is a proportion of private use, as in a car, there may be a restriction to take this into account.

The second type of loan is for buying a private residence and, according to legislation dating back to 1974, this is limited to interest on a principal amount now £30000. This will not normally be increased, unless it is possible to persuade the local Inspector that the house contains an element of accommodation to be used in practice.

Preparing and Submitting the Claim

In the majority of cases, practice expenses claims will be prepared by your accountant. In a partnership, there will be considerable advantages if the same accountant deals with the individual GP's claim as deals with the partnership accounts and taxation. The claim should, of course, be prepared to the same year-end as the practice accounts and, ideally, submitted to the Inspector for agreement at the same time.

All this will usually add up to a fairly substantial claim to be made by you and to be set against your share of the practice's profits.

The obligation for ensuring that all

allowable items are claimed rests very largely with you. Whilst the accountant can advise generally on the claim, he has no knowledge of your actual expenditure during the year unless you tell him about it.

For instance, the accountant has no way of knowing if you have bought a car or done expensive repairs to your house unless you tell him so! It goes without saying that if he is presented with a list of expenditure, neatly and concisely set down, with supporting bills, it will be a great deal easier for him to prepare the claim than if you give him an assorted bundle of papers, with some of the expenditure missing and many of the bills irrelevant for the purposes of the claim.

In making claims of this nature for income tax purposes, it should be borne in mind that the local Inspector, who may well be the most reasonable of men, is only human and will react adversely to any obviously unreasonable claims submitted. This is almost certain to be counter-productive and could well result in a closer look being taken at the claim as a whole.

What Cannot be Claimed

Having considered the possible claims which can be made, it would perhaps be as well to look at some typical items which *cannot* be claimed. These can be summarised in general terms as:

1. Private domestic expenditure (food, clothing, etc);
2. Non-allowable proportion of house and car costs;
3. Capital expenditure (except in certain restricted cases);
4. Expenditure for which a refund is obtained (eg courses, etc).

Certain specific items, which GPs sometimes wish to claim, but which are not allowable, are:

1. Interest on personal bank overdrafts;
2. Premiums on accident or sickness insurance policies (even where these provide for payment of locums);
3. Costs of private education;
4. Premiums to private sickness insurance schemes (BUPA, PPP, etc);
5. Certain legal charges (for partnership deeds, property transfers, capital loans etc).

4g House Expenses Claims

Most of you to a greater or lesser degree use your houses for practice purposes. At one end of the scale, one will find the GP with either a purpose-built surgery attached to his house, or who runs a regular surgery there and has part of the house set aside exclusively for that purpose. In these cases there will be no difficulty whatever in making a claim for part of the cost of running the house, the only possible difficulty being in agreeing a suitable percentage with the Inspector.

Far more common is the case of a GP who is a member of a partnership practising from a central surgery, the expenses of which will be paid out of practice funds and automatically taken into account in arriving at his partnership profit. If you are in this position and also see patients with some regularity at your own house then, provided a claim is properly submitted, you will usually be able to claim a part of the house expenses against your share of the partnership profit for tax purposes.

There are several requirements which are usually considered necessary before submitting such a claim:

1. The house must be within, or at least

reasonably adjacent to, the practice area. If the house is situated ten or twenty miles from the practice, it is unlikely that patients will call at the house with any regularity and it will be difficult to substantiate such a claim;

2. You should display a plate outside the house to the effect that you are a GP. The lack of such a plate would not necessarily preclude the allowance of a claim but there are circumstances in which it would render its acceptance much more likely;

3. You should have, or should be likely to have in the near future, an appropriate entry in the local telephone directory;

4. You should set aside part of the accommodation either exclusively or partially for practice use; and

5. You should garage the cars used in the practice at the house.

Having established that the basis for such a claim exists, it is now necessary to calculate the fractional cost of the house expenses which you can claim. There are cases where a fixed amount is included in the claim each year, to cover such costs, but experience shows that this is likely to give a much lower figure than the fractional basis.

The method usually employed and which is invariably acceptable to the Inland Revenue is to award an arbitrary points figure to each room in the house, more or less dependent on its size, and

Illustration 1. Practice Proportion of Private House

Dr B. Truman, 'Watneys' 19 Courage Road,
Charrington-on-Bass

	Practice	*Private*	*Total*
Downstairs:			
Garage (double)	18	2	20
Kitchen	2	13	15
Lounge (waiting)	4	16	20
Dining-room	–	15	15
Study (consulting)	8	2	10
Entrance hall	1	4	5
Cloakroom	1	4	5
Storage room	1	4	5
Upstairs:			
Main bedroom	–	20	20
3 bedrooms (15 each)	–	45	45
Bathroom	–	10	10
WC	–	5	5
	35	140	175

Proportion of claim: 1/5

then to allocate those points between practice and private use.

For instance, if you have a study where patients are seen and which is used for no other purpose, the whole of the points attributable to this room can be allocated to practice use. Conversely, it is unlikely that an upstairs bedroom or bathroom can be allocated other than for wholly private use.

Illustration 1 shows a worked example of this, for a GP's house, with none of the rooms used exclusively for practice use, but which finally gives a fractional figure of one-fifth to claim. It is suggested that if this method is used, the principle is likely to be acceptable to the Inspector of Taxes, although he may wish to negotiate over the actual allocation for the various rooms.

It is now necessary to consider the detailed expenditure which is to be included in the claim.

Rent

If the house is rented, the amount of the rent or ground rent paid can be included. This is not a usual item, with most doctors owning their own houses.

Rates

The total cost of general and water rates for the house can be included with, if applicable, any drainage rates, sewerage rates or other items which may be charged in certain areas of the country.

Insurances

The whole of the cost of insuring the structure of the house can also be included. In certain cases, and subject to negotiation, it may be possible to include part of the cost of insuring the contents of the house.

Repairs and Renewals

This is the item in the claim giving rise to most differences of opinion. A rough and ready rule is that a genuine repair is expenditure incurred in putting the house back in the condition in which you acquired it. Thus, for example, if you purchase a dilapidated old house and spend large sums of money putting it into a suitable state of repair for habitation, this is not an admissable item but is part of the capital cost of the house.

Among items which can normally be claimed are exterior and interior decoration, rewiring, joinery, plumbing, brickwork repairs etc.

Inadmissable items include all costs of improvements and extensions. Private expenditure on furniture and soft furnishings etc is not allowable, except when they are exclusively used in a consulting room, then their cost can be deducted.

There will inevitably be items which fall some way between two stools; where there is some element of repair and some of improvement. This often comes about where, in a large scheme of improvement or extension, there is some work on the original building which is of a genuine repair nature. In these cases it will usually be possible to obtain a form of certificate or letter from a builder or architect concerned, setting out the repair element, which can then be included under that heading in the overall claim.

A typical example, often seen, is the cost of installation of double glazing, where none previously existed. Unquestionably, there is some element of improvement, but equally the original windows may have decayed to a point where replacement became a necessity. In these cases, a reasonable local Inspector will often agree to the inclusion of half the total cost in the claim.

Illustration 2. Practice Expenses Claim. Year to 31st March 1983

House Expenses	£
Rent	–
Rates	825
Lighting & heating	892
Repairs and renewals *	598
Window cleaning	65
Insurance	150
Domestic assistance (£10 week)	520
Garden expenses (¼ whole £1000 – subject to negotiation)	250
	3300
Claim: one-fifth	660

* includes £200 interior decorating; £150 electrical repairs and £225 part (½) cost of replacement windows.

Cleaning

The cost of cleaning a house should be included: window cleaning, chimney sweeping, as well as the cost of employing domestic assistance. Refuse collection costs can also be included under this heading.

Garden expenses

Again, this may be an arguable item, although it is often claimed and allowed. Whilst it is perfectly fair to include expenditure on maintaining the front part of the garden which may be used by patients, it is less acceptable to claim amounts on, say, an extensive rear garden which has no possible connection with the practice. This again will be very much subject to negotiation.

Having established allowable expenditure, this may then be totalled and the agreed fraction operated upon this. In Illustration 2, the fraction arrived at previously, one-fifth, is operated on a total expenditure of £3300, giving a figure of claim for house expenses of £660. Provided that the conditions outlined above are met, we suggest that this claim is in a form which is likely to be acceptable to an Inspector of Taxes.

Capital Gains Tax

One reason which frequently deters GPs from making a claim for house expenses is that they have been advised – probably wrongly – that, in the event of the house being sold at a profit at some time in the future, they will be liable for Capital Gains Tax on a proportion of the gain realised.

This is, in fact, unlikely, provided that whoever deals with your negotiations with the Inland Revenue is aware of the options which are open to you.

The whole subject of CGT on GPs' houses is complex and cannot be covered adequately in the context of this single article. Suffice it to say that you should not be dissuaded from making a claim for house expenses merely by the prospect of having Capital Gains Tax to pay at some time in the future.

4h The Car in the Practice

All GPs travel at some time to see their patients and the 'doctor's round' is a usual and acceptable part of your daily routine.

One still hears of GPs who travel round on a horse and there are several who regularly use a motor bike or motor scooter, or even a bicycle. Whilst this is quite acceptable, almost all of you travel by car and can claim, for Income Tax purposes, the expenses of buying and running that car.

What Type of Car?

Many of you may wonder whether you will still obtain relief on running costs regardless of the type of car you run. The answer to this is almost certainly yes. It is of no concern whatever to an Inspector of Taxes whether you do your rounds in a Mini or in a Bentley. Whatever it costs to run will, subject to any restriction for private use, be allowable for Income Tax purposes. The reaction of your patients if you were to arrive in a Rolls Royce, however, is perhaps best left to the imagination!

Contrary also to some popular belief, there is no reason whatever why you should not claim for more than one car, provided you can reasonably show that you require the additional car for your practice use.

It is perfectly acceptable that you will require a spare car for the periods when your own is off the road and there may well be times when a second car can be used in the practice by other partners, by trainees or by assistants. If a male GP employs his wife in his practice, she may also use the car for quite legitimate practice purposes.

What Expenses can be Claimed

Broadly speaking, the claim should include all amounts spent during the year in running, maintaining and servicing the car. This can usually be summarised under the following headings:

Road Fund Licence: Include this at the standard rate (currently £85 pa) for all cars in full or partial practice use during the year.

Insurance: Similarly, but take care to exclude amounts which might be paid in any combined premium upon cars which are not used in the practice and upon which relief cannot be claimed.

Petrol and Oil: Many doctors have accounts with their local garage, but this can be a more expensive way of buying petrol so many now also either buy in cash at the pumps or by means of a credit card. The monthly account method is easier in ensuring all items are claimed and if you pay at the pumps you should take particular care to retain all the payment slips, so that these can be totalled at the end of the year.

Repairs and Maintenance: This is merely the cost of all repair bills, servicing, MOT tests etc. Again, ensure that the bills are carefully kept and are available when the claim is prepared.

Cleaning: Include the cost of car washing, as well as any amounts paid to other people to clean the cars. You cannot include any amount payable to yourself for this. Some doctors do, however, pay their teenage sons to clean cars and there is no objection to these payments being claimed.

Car Hire: If you only run one car, it will

Illustration 1. Interest and Capital Repayments

Dr R. O. Adhog: bought a New Bloggs Super-Oaf II on 31st January 1981 for £7200, financing this in part by a hire-purchase advance of £6000, repayable over 2½ years at £290 monthly. He makes up his expenses claims to 31st March annually.

The total repayments are made up as follows:

	£
Repayment of principal sum	6000
Interest (30 months @ £290)	2700
	8700

Claim for HP Interest included in motor expenses	
Year to 31st March 1981 (2)	180
31st March 1982 (12)	1080
31st March 1983 (12)	1080
31st March 1984 (4)	360
	2700

be necessary for you to hire a car for use in the practice when your own is off the road. This again is a legitimate expense and can be included in the overall claim. Make sure that the actual amounts paid are recorded at the time.

Motoring Organisations: Remember include all subscriptions to RAC, AA, or similar organisations, including recovery or relay services.

Interest on Purchase: The cost of finance on all bank, hire purchase and similar loans to purchase the car should be included in the claim. Where necessary, this may have to be apportioned between interest and capital repayments, as shown in Illustration 1.

Other Travelling Expenses

If you use other forms of travel in your practice you may also claim for this, usually without any restriction for private use, where the amounts have been specifically spent on, say, visiting patients. Included under this heading may be plane, taxi, train, bus fares etc.

Buying or Leasing

There has been a great deal of controversy in recent years over the possibility of GPs leasing cars for use in their practice and obtaining tax relief on the leasing charges. Experience shows that the overall cost is high for anyone unable to reclaim the VAT and likely to be greater than the monthly cost of actually buying a car under, say, hire purchase or, more probably, a bank loan.

It is difficult to generalise as there are many differing types of leasing contract on the market, many of them involving variations in payments for repairs and, above all, the conditions under which the car might be transferred to the lessee after the contract period. Each scheme must therefore be evaluated separately and considered on its merits.

For GPs, the biggest factor counting against leasing is that you are, by virtue of your zero-rated status for Value Added Tax, unable to recover the VAT charged by the leasing company on the monthly charges. This greatly increases the cost to the GP and for that reason it is difficult to recommend schemes for leasing practice cars.

The 'Private Use' Element

Perhaps the most important and contentious item in preparing and agreeing claims of this nature is the element of private use which must be taken into account before the Inland Revenue will accept the claim as allowable for Income Tax purposes.

Whilst on occasion there are cars which quite genuinely have 100 per cent practice use, this is uncommon and for the most part the car which is the subject of a claim will be used by you both in your practice and for your own private purposes. Strictly speaking travel between home and surgery will usually be considered as private use.

It cannot be emphasised too strongly that there is no hard and fast rule for calculating this private use content. Generosity of treatment can vary widely between different tax districts. Even so, it can be said that most accountants will probably attempt to claim 95 per cent

Illustration 2. Calculation of Proportion of Private Motoring

Dr A. Goon:

Specimen mileages: October/November 1982

		Car 1		Car 2		
		Practice	*Private*	*Practice*	*Private*	
October:	Week 1	235	30	25	20	
	2	246	19	50	25	
	3	475	53	100	20	
	4	50	10	400	10	
	5	180	5	75	5	
November:	Week 6	481	43	120	40	
	7	327	15	180	50	
	8	276	19	100	10	
	9	385	25	75	21	
		2655		1125		= 3780
			219		201	= 420

Total: Practice Mileage	3780	(90%)
Private Mileage	420	(10%)
	4200	(100%)

practice use where one car is used, and 90 per cent for two cars.

In many cases, these claims will go through without query by the local Inspector but in other cases you and your accountant may well have to put up an extremely good case before they are accepted.

It sometimes occurs that the Inspector may request you to keep detailed records of your mileage for a specimen period, allocated between private and practice use. This would then be summarised and the two factors added together to produce a fraction.

In Illustration 2 we see the position arising where Dr A. Goon kept such a log for a nine-week period in October and November 1982. His two cars during that period travelled a total of 4200 miles, of which 420 was clearly shown to be private, giving a private motoring restriction of 10 per cent.

It is fair to say that many similar exercises will not give such a satisfactory outcome and may well show a higher level of private use than had been allowed previously. On these occasions, you will have little alternative but to accept the less generous fraction in your future claims, with such good grace as you can muster.

A typical motor expenses claim, with a 'private use' element of 10 per cent, is shown in Illustration 3.

Allowance for Depreciation

It naturally follows that the car used by a GP in his practice will fall in value over the period of use. One does, in these inflationary times, occasionally come across a car which has been sold some years later for more than the buying price but this is the exception rather than the rule and more often than not the car will depreciate over the years.

The income tax laws recognise this and quite properly make a provision for an allowance to be granted to a car user for this loss in value. In strict terms this is known as an annual 'writing-down' allowance and is effectively 25 per cent

Illustration 3. Claim for Motor Expenses, Year to 31st March 1981

	£
Licences	160
Insurance	359
Repairs & MOT	721
Petrol & Oil	1158
Car Wash	46
Parking Fees	55
Interest on Bank Loan	382
AA subscription	35
	2916
Less: 10 per cent private use	291
	2625

of the cost or written-down value of the car.

The law specifically excludes private cars from the 100 per cent first-year allowance available on other new assets. Thus, if you buy a car for £6000, you will be granted an allowance of £1500 (25 per cent of £6000), in the tax year in which your profits for the same year are assessed. In the following year, provided that the car is still on hand at the end of the year, you will receive an allowance of £1125 (25 per cent of £4500 ie £6000 – £1500).

The balance of value remaining to the car after these annual amounts have been allowed is known as the 'written-down value'.

A typical 'Capital Allowances' calculation, is shown in Illustration 4.

What Happens When You Sell?

When a car is eventually sold, an adjustment must be made as the actual sale price will rarely be identical to the written-down value. If the sale price is greater, there will be a 'balancing charge' and if it is less a balancing allowance.

Thus, if in Illustration 4 the car with a written-down value after two years of £3375 (£4500 – £1125) was sold for £3800, there would be a balancing charge of £425. This in effect repays to the Revenue the allowances previously over-allowed. The private use element of 10 per cent would be operated on this, bringing the actual charge down to £382.

On the other hand, if the car had been sold for, say, £3000, this would result in a balancing allowance of £375 (less 10 per cent) which would be allowed against that GP's share of the practice income tax assessment.

It is, of course, likely that during the same year as a sale is made, a replacement car will also be purchased, upon which the annual allowance of 25 per cent will also be granted on the cost price.

Expensive Cars

The granting of allowances for depreciation on cars may well seem to be generous. However, there is a limit to it and a restriction of these allowances will apply in the case of cars costing over £8000 (1982-83). In these cases, the allowance will operate on the assumption that the car cost a limit of £8000 and the annual allowance cannot exceed £2000 (ie 25 per cent of £8000).

There is a similar restriction on leasing

Illustration 4. Capital Allowances Claim

	£		£
Car bought 1979/80: Cost	6000		
Allowance 1980/81 (25 per cent)	1500	(less 10 per cent) =	1350
Carried Forward	4500		
Allowance 1981/82	1125	(less 10 per cent) =	1013
	3375		
Sold January 1982	3800		
Balancing charge	425	(less 10 per cent) =	382

charges which refer to cars costing in excess of £8000.

Should I Buy to Claim the Tax Relief?
In a word, almost certainly no. We are often asked whether it makes economic sense to buy a larger car for the tax relief, rather than a smaller one, which will perfectly adequately serve in your practice.

The main point to remember here is that the purpose of the exercise is not merely to save tax, but to save money. It must follow in this instance that, although you would almost certainly pay less tax by virtue of your more expensive car, you would also be spending money unnecessarily and would ultimately find yourself out of pocket on the deal. The actual figure of tax saved will never equal the amount of the expenditure.

Similar arguments hold good in favour of buying a car by cash or by some form of loan finance. The tax you save on the interest payments will never amount to the additional amount you spend by paying that interest.

Conclusion
Necessary and normal expenditure on your car can be an excellent and useful method of tax saving, so long as you remember to record your expenditure, retain all bills and ensure that a full and accurate claim is prepared. A methodical system of recording such expenditure can almost literally be worth its weight in gold.

4i Practice Expenses in General

There are a host of sundry claims which can be made under the omnibus heading of 'General Practice Expenses' and in this section it would be as well to look at these in some detail.

Medical Subscriptions
All GPs pay the registration fee to the GMC and will almost certainly subscribe to one of the medical protection societies. You may well also be a member of the BMA, RCGP and several societies of a more specific nature within the profession.

These are quite legitimate medical subscriptions and should all be included in the claim under this heading. Payments to local medical societies should also be included. Make sure that you are aware of the increasing subscription rates, to enable a full claim to be made.

Charitable and Other Donations
Many GPs will make donations of a charitable nature from practice funds and, provided these are of a reasonable amount, local Inspectors of Taxes will, as a result of the relatively little-known provisions of Section 54, Finance Act 1980, allow them against profits assessable under Schedule 'D'. This may include such items as donations to local sports organisations, medical benevolent funds and similar items.

Books, Journals etc
Although many GPs receive literature free of charge, there are still those who subscribe regularly to medical journals, as well as purchasing books for reference purposes. All payments of this nature should be included in the claim under this heading.

Locum Fees etc
Many GPs make payments to locums for temporarily looking after their practices. In many cases, depending largely on clauses in the partnership deed, these may be made personally by the partners rather than out of practice funds. These

are perfectly legitimate expenses and should be claimed. Where, under similar conditions, payments are made to relief or deputising services, these payments should also be included in the claim, usually under a separate heading.

Security Expenses
With many doctors keeping valuable drugs and equipment in their houses, the necessity for expenditure on some form of security is obvious. The installation of burglar alarms, annual maintenance of these, provision of security locks, etc can all be allowed for tax purposes. This should not be included in the house expenses claim and reduced by the private use element, as it is in effect all expenditure of a practice nature.

Many doctors also justify claims for keep of a guard dog and here again the Inspector will be prepared to allow this if a reasonable case can be made.

Printing, Stationery and Postage
If you are an average GP you will use your own private bank account to some degree for practice purposes, for example by paying part of your house expenses, motor expenses and sundry other items from your private account. If a charge is made by the bank for use of the account, a proportion can be included in the claim. It is normally considered that one-half of the charge is reasonable. Overdraft interest should not be included.

Cleaning and Laundry
Here again, most of this expense is likely to be paid from the practice, but if you pay for the cleaning of your suits, the laundering of your overalls, protective clothing and so on you should see that the expense is claimed.

Medical Instruments
The upkeep, cleaning and replacement of medical equipment is a perfectly proper claim and all amounts expended should be carefully listed and included under this heading.

Waiting Room Papers and Flowers
Here again, this is often included in the overall house expenses and reduced accordingly. It is preferable to claim this as a separate entity; the virtual impossibility of keeping a record of every single item of expenditure during the year means that normally an estimate will be included in the claim which must, if required, be justified.

Accountancy Fees
Most of the practice accountancy bill will be paid from partnership funds, but if any charges are made to you individually, these should be claimed.

Wife's Salary
The married male GP should make the maximum possible claim for the services of his wife. Currently, 1983-84, so that the wife will not herself become liable to Income Tax and National Insurance contributions, the level of the salary should be no higher than £1 689 pa.

There is an advantage if payments to GPs' wives are made personally by doctors in partnership, and included in their personal claims, rather than having the salaries paid from partnership funds. Ensure that an actual payment is made to the wife at regular intervals. See Chapter 7.

Wives' Pensions
Possibly the best tax-saving facility available to GPs is that by which the husband, as his wife's employer, pays premiums on a pension policy which will mature on her eventually reaching retirement age. Subject to prior Inland Revenue approval being received, the whole of the premiums will be allowable

for Income Tax purposes at the GP's top rate of tax – a far better rate of relief than through a conventional endowment policy. See Chapter 7.

Insurance Premiums

The insurance on your house will normally be included in a house expenses claim, whilst life assurance receives relief by deduction at the time of payment of the premium. No relief whatever can be claimed for premiums on personal sickness or accident insurance policies in your own name.

There remain, however, a few premiums which can be included under general practice expenses. These include public liability insurance, which may be paid by you personally, as well as insurance of your own medical and surgical equipment. Medical protection insurance is usually claimed under the heading of medical subscriptions.

Courses, Conferences etc.

In many cases, costs of attending courses are refunded from NHS sources and, where no net cost is met by the GP, obviously no claim can be made.

However, there are other conferences which you will attend at your own cost and a claim must be made for these. If your wife attends also, it will not normally be possible to make a claim for her share of the cost.

Claims of this nature are very much subject to the discretion of local Inspectors of Taxes and you must be wary of any assurance you receive from outside sources that this expenditure will automatically be allowable.

Private Telephone Bills

In many partnerships it is the policy of the practice that all private telephone accounts are paid from partnership funds. However, in other cases these will be met by you personally and a proportion of the total cost should be included in the claim. There will obviously be an element of private use here and we suggest that initially claims may be for 90 per cent of the total cost, although again this is very much subject to negotiation and ultimate agreement.

Photographic Expenses

Many GPs use cameras for genuine medical reasons, often in connection with training purposes. This is a perfectly reasonable claim to make although here again some element of private use may well have to be taken into account. Expenditure can include the provision of cameras, films, processing, developing etc.

Maintenance of Approach

The cost of maintaining the garden and surroundings of a house used in your practice can be claimed in several ways. The actual cost of upkeep of the approach to the house, to the extent that this is likely to be used by patients, is a proper claim and you may well obtain a better deal through this means than by trying to include part of your gardening costs in a claim for house expenses.

Remember – and in conclusion – although Income Tax can hardly be described as a voluntary tax, its incidence can be mitigated by an efficient and knowledgeable method of claiming practice expenses.

4j Trainees' Expenses

Being taxed under Schedule E (PAYE) the trainee is at a disadvantage compared with the GP taxed under Schedule D in that expenses must be incurred wholly, exclusively and *necessarily* for purposes of work in order to justify a legitimate claim for tax relief.

The Inland Revenue issues a Form P87 which deals with the claiming of expenses against Schedule E taxed income.

Subscriptions paid to medical organisations such as the BMA, RCGP or a medical defence society are allowable, as is an annual registration fee to the GMC. Car expenses for the running costs of a car – tax, insurance, petrol, loan interest, repairs – can be claimed but a percentage will be deducted to allow for personal use of the car, and personal use includes travelling to and from a place of work.

On the other hand the car allowance received by trainees will almost certainly be taxed.

It is possible that some telephone costs will be allowed, if they are not refunded by the trainer, but not any proportion of home expenses such as lighting and heating, even if it is possible to show that patients are seen there from time to time.

Broadly speaking, if any expenses are to be allowed, the claimant must be able to show clearly that they are necessary for the purposes of his profession, that he cannot obtain any refund or recompense from his employer, and that the expenditure was not incurred primarily for some private purpose of his own.

5 Partnership

5a Partnership, the Tax Implications

Some 81 per cent of GPs in the UK are reported to practise as members of partnerships so it is the tax implications of partnerships which are a major concern of this booklet. There are many variations in partnership agreements, some are well-thought-out, others highly unsatisfactory, often with a resultant sudden sharp shock to a partner who comes up against an unnoticed and penalising clause. Suffice it to say here that every partnership *must* have a written and legally binding agreement, preferably drawn up by a specialist solicitor and examined before completion by an equally specialist accountant.

One of the benefits of BMA membership is expert advice on partnership agreements.

The implications of partnership are joint responsibility for each other and, as part of this, the responsibility of each partner for all the partnership debts, including tax debts. The Inland Revenue assesses and charges the partnership profits in one sum in the partnership name. Then each partner is given a breakdown of how the amount he has to pay individually is arrived at. This is payable twice yearly, as explained in Chapter 4, and if not paid promptly is subject to interest charges.

An aspect of the general practice partnership, a partnership of independent practitioners, is the payment of tax under Schedule D in arrears – the 'preceding' year basis. See Chapter 4.

Many of the partnership problems that arise are concerned with tax – the division of tax between partners; provision made by the practice for tax and National Insurance contributions, and the handling of the tax liabilities of retiring and incoming partners.

The division of tax between partners hinges firstly on their shares of the practice income and secondly, obviously, on their family situation and individually-claimable personal expenses. These are dealt with differently by different practices – see Chapter 4 sections d, e, f and g.

Provision for tax and National Insurance contributions should be written into the partnership agreement and a tax reserve should be created. This can clock up a small profit if invested in a building society or bank deposit account (providing the practice is not overdrawn on its current account).

In order to have a reasonably accurate assessment of the reserve required partners need to keep their personal accounts up to date, handing over their receipts or evidence of expenditure to their accountant in good time. The accountant's bill will be higher if he is unable to complete all the accounts at the same time.

If all the partners' personal accounts are also handled by the practice accountant this simplifies matters, and it should be possible for a practice to have about 12 months' warning of their approximate future tax liability.

For example, if the accounting year ends on 30th September 1983 these accounts will be used to calculate the tax payable in January and July 1985 and they should be prepared at least by January 1984. Provision can then be made by monthly savings from April 1984.

An advantage of this is the ability to calculate monthly drawings by each partner – subject to the cash flow of the practice.

A point to bear in mind is that the date of the practice's accounting year-end can considerably influence the amount of tax paid in the following year. For example, by tying it to the end of the financial year, ie 5th April, the partnership would become liable to pay tax on the profits for, say, their 1981/82 year in the 1982/83 tax assessment. By fixing it just beyond 5th April they will not pay tax on their 1981/82 year until the 1983/84 tax assessment. In an inflationary period this could make a difference of £1000 or more!

The problems occasioned by partnership changes are dealt with in the next section of this chapter.

5b Partnership Changes, Tax Implications

When there is a change in a partnership for any or more of the following reasons:

1. Admission of a new partner
2. Retirement of a partner
3. Death of a partner
4. A partner leaving

for Income Tax purposes a partnership is treated as having come to an end and a new partnership to have started on the following day. This will bring into force the 'opening and closing' rules of assessment.

The final period from 6th April to the date of cessation of the partnership is

Example of Partnership Change

Profits year ending	31.3.78	£25 000
	31.3.79	30 000
	31.3.80	35 000
	31.3.81	40 000
	31.3.82	45 000

A new partner was admitted and an old one left on 31st March 1981.

	Profits assessable on cessation basis		*Profits assessable on continuation basis*
	£		£
1978/79	30 000	1978/79	25 000
1979/80	35 000	1979/80	30 000
1980/81	40 000	1980/81	35 000
1981/82	45 000	1981/82	40 000
1982/83	45 000	1982/83	45 000
	195 000		175 000

taxed on an actual basis. If the profits of the two preceding years would have been higher on actual basis then the assessments are increased.

If an election signed by all parties before and after the change (or their personal representatives) is lodged with HM Inspector of Taxes within two years of the date of the partnership change, the partnership is treated as having continued for tax purposes. What is the point of this? Well, here is an example of when it would be beneficial.

When profits are rising it is usually advantageous to have a continuation election in force. Clearly it is essential to have a qualified professional adviser. Similarly, indemnities should be given to incoming and outgoing partners to secure that they shall not be liable, personally, for more tax than they would have paid if such an election had not been made. This is usually in the other partner's interest.

6 The Cost-Rent Scheme

6a The Scheme

The cost-rent scheme, for encouraging GPs to purchase, improve or expand their surgery premises, is a matchless opportunity for acquiring a valuable building without capital outlay. Judged purely upon its investment potential, it is an opportunity unique in British professional life.

No other profession, either inside or outside the National Health Service, is offered a scheme of a similar nature and if you have a chance of taking part in such a venture you should not lightly turn it aside. The opportunity may well not occur again. Nevertheless there are some areas that are not taking advantage of the scheme, presumably because the doctors are not applying.

The scheme aims to reimburse you for the interest you pay to finance the initial cost of a new surgery project or its equivalent. Cost limits for the scheme, and the types of expenditure which can be included, are set out in full detail in paras 51.50 to 51.58 in the *Statement of Fees and Allowances* (The *Red Book*). Detailed schedules listing the various limits of accommodation and costs to be included in the scheme are also given in para 51 Schedules 1 and 2.

Allowances set in July 1980 were still operative at the time of writing, despite the considerable inflation since then. This is because they are based on the price index of public sector housing, which is an indicator of *tender price* movements and not necessarily movements in building *costs*. In the present economic climate the building industry has accepted lower profit margins.

Cost allowances increase or decrease when a fixed point in the index has been met.

Fixing the Rent

The cost-rent allowance payable by the National Health Service to practitioners owning premises erected under this scheme is calculated by reference to the prevailing rate of interest charged by the General Practice Finance Corporation (GPFC) at the time the tender for building work is accepted, or an irrevocable commitment entered into.

The direct calculation of this allowance is made by applying this interest rate to the total qualifying cost of the building works and allied expenditure. Hence, 'Cost-rent'. It is a scheme designed to give a no-profit, no-loss effect.

Thus, reduced to its simplest, at the rate of 13½ per cent in force at the time of writing, and upon a total qualifying cost of £100000, the annual cost-rent will be £13500. This cost-rent will remain unchanged during the entire period of ownership unless, at one of the triennial review dates, an option is made for notional rent, based on the District Valuer's valuation.

It is generally considered that this option is likely to be beneficial after the second triennial review (that is after the new building has been occupied for six years).

Having embarked upon a cost-rent project, the practice will then require to raise the necessary finance through their own sources. Until recently, almost all surgeries of this nature were financed by loans from the General Practice Finance Corporation.

However, in recent years, the higher rate of interest charged by the Corporation, coupled with more readily available sources of finance, and competitive interest rates offered by other institutions, primarily the major clearing banks, have prompted many practices to look elsewhere to finance their new surgery. Building societies too now find they can lend money for surgery premises and there are insurance companies anxious to lend money to doctors.

Before considering any of these, you should bear in mind the very real advantages offered by a GPFC loan and ensure that the alternative source offers:

1. A rate of interest unchanged during the period of the loan;
2. A sufficiently long repayment period; The GPFC will lend over 20, 25 or even 30 years, which is not offered by many banks;
3. Where a change in ownership of the surgery takes place, probably due to a partnership change, a facility for amendment of the names of the borrowers without requiring renegotiation of the rate of interest or other loan conditions; and
4. Repayments of the loan by quarterly deductions in the FPC quarterly statement rather than by a direct payment from the practice bank account.

The GPFC now offers a 'floating' interest rate, which will fluctuate according to market trends, in which case the cost-rent allowance will fluctuate similarly.

Shopping Around

If you have such a project in mind you should also approach your own and other banks to try and obtain the best offers available. This 'shopping around' can reap considerable benefits; differing rates of interest and repayment periods are frequently offered by the various banks and indeed at times by different branches of the same bank.

Of particular interest should be the business development loans offered by the major banks, which offer a constant rate of interest throughout the period of the loan. This obviates the tapering effect of the tax relief for interest paid during the closing years of the loan.

However, a bank lending a large sum of money will probably require that the doctors take out some form of life insurance – through the bank's agency – or that all the partners' as well as the practice's account should be in that bank. The doctors would then be unable to remove their accounts if they disliked the terms on which money could be borrowed for personal reasons, for example to finance a new car.

Advances

During completion of the project, funds will require to be advanced for, possibly, purchase of the land, professional fees, stage payments to builders and the like. These will usually be financed by a bridging loan from a bank, which is normally happy to offer facilities of this nature.

Care should be taken to see that the interest on this bridging finance, up to the date of the cost-rent reimbursement becoming operative, is included in the final total cost of the entire project, upon which the actual cost-rent will be calculated.

The Tax Treatment

The cost-rent received will be assessable to income tax in the hands of the recipient under the preceding-year basis applicable to Schedule D taxpayers. It should be included in the practice accounts of the doctor concerned and on no account should it be shown separately as investment or rental income in his personal tax return. If not properly advised, the doctor could easily pay more tax than is properly due upon this income and there could ultimately be a detrimental effect on his Capital Gains Tax position on retirement.

Interest charged on the loan account is fully allowable for tax purposes, but on the basis of the actual year in which it is paid. This can have significant advantages in the first years of ownership.

6b Buying into the Practice

Where changes in the partnership take place during the period of the loan, it will be necessary to compute the equity capital held in the surgery, by having a current valuation prepared and deducting the outstanding loan balance.

A retiring partner will expect to receive his appropriate share of this balance and, similarly, an incoming partner purchasing a share of the property will expect to pay a similar amount, as well as taking over responsibility for payments on the existing mortgage.

Many GPs owning surgeries are worried over the possibility of Capital Gains Tax being due upon retirement from the practice. In many cases, the retirement relief for CGT purposes will apply, which rises (from 1983-84) to a maximum of £100 000 exemption at age 65. This is likely either to extinguish, or greatly reduce, any Capital Gains Tax which would otherwise be payable.

It will be seen, therefore, that the cost-rent scheme gives the practising GP a matchless opportunity for acquiring a substantial capital asset, without initial outlay and financed entirely out of income. The likelihood is also that at eventual sale upon retirement the realisation will be entirely free of Capital Gains Tax.

However, if major problems are encountered through would-be incoming partners being unable to buy the outgoing partner's share outright, the General Practice Finance Corporation (GPFC) may be able to help.

This may be through lending the incoming partners the purchase price, to be repaid over a long term, or through purchase of the premises by the GPFC under the 'Buy and Lease Back' scheme. Provided it is a group practice, and everything is done within the parameters of the cost-rent scheme, the GPFC will find the cost of the premises and give the practice a 30-year lease on them.

Under this 'Lease Back' scheme, the owning doctors would, of course, lose very real and significant capital advantages.

7 The GP's Spouse and Family

7a A Salary for your Spouse

The Male GP

The facility for paying a salary to your wife for assistance in your practice is a long-established and perfectly legitimate means of recompensing the lady for her services and accomplishing some acceptable level of tax-saving for the GP. We refer to 'wife' because this has been the tradition and because in most instances a male spouse will have his own taxable income.

The salary which should be paid is such an amount as will ensure that the wife herself is not liable for either Income Tax or Class I National Insurance Contributions on the income she receives. The annual payment should therefore be maintained at a level below both the personal allowance for Income Tax purposes (1983-84: £1785) and the threshold for Class I National Insurance Contributions (for 1983-84: £1689).

The necessity for maintaining this below the Class I NIC threshold cannot be too strongly emphasised; at current rates, if the salary exceeds the prescribed level by even £1, the wife, and her husband as her employer, will together be liable to 20.95 per cent of the gross salary, which could well extinguish the available tax relief.

These rates change from year to year, with amendments to tax and National Insurance levels, so that they must be carefully calculated by a professional advisor who is a specialist in this field. To obtain the maximum benefit the wife's salary should be increased each time the NIC and Income Tax thresholds rise.

An exception to the recommended salary maximum is the wife who qualifies for the related ancillary staff allowance by working in the practice, and who should be paid on a similar scale to non-related staff. The FPC will reimburse the employer's National Insurance contributions in full, and for the cost of her own contribution she will be building up rights to old age pension, sickness and unemployment benefit. It is essential, though, to check with an accountant whether a wife's earnings election is advisable.

The Married Lady Doctor

Whilst a married lady doctor may easily pay a similar salary to her husband, provided this is not unreasonable, if – as is likely to be the case – he is in employment and has his own taxable income, this will merely result in the transfer of the liability from one partner to another. Indeed, if the husband's tax rate is higher than that of his wife, the couple may well be incurring an extra liability through this transaction. One would not therefore recommend that a salary be paid in such a case.

However, it may be of benefit if the wife earns more than the husband. If a wife's earnings election is applicable this could equalise the level of taxable income for both and thus reduce the overall tax charge.

Often, however, married lady doctors find that they have responsible teenage children at home who are capable of answering the telephone, dealing with simple calls from patients and even at times helping out in the practice. In these circumstances, there is no reason whatever why a salary should not be paid to the child. Provided that they have no other taxable income of their own, the salary paid will be tax-free in their hands.

In all these cases, if payments are made to an outside person for telephone answering services, this is a proper deduction and fully allowable for tax purposes.

Outside Employment

A problem again arises where the wife of a doctor, to whom such a salary is paid, has her own outside employment, which effectively uses up her available personal allowance. In these cases, it will be found that the salary paid by the husband becomes taxable income in the hands of the wife and she will be liable for tax upon it.

Nevertheless, the continued payment of this salary should not be discouraged. In cases such as this it is important to establish a precedent and, except in the rare case of a wife having a higher tax rate than her husband, no possible loss to the family unit can arise. The wife may well stop working at some time in the future and the continued payment of this salary will then become tax-effective.

The Manner of Payment

Another problem is the manner in which these wives' salaries should be paid by members of a partnership. It is better for them not to be paid out of partnership funds, but by the partner himself personally (unless the wife in question actually works on a regular basis in the surgery). They can then be included in his own practice expenses claim and be allowed against his own share of the partnership profit only.

In cases where there are some doctors without wives, the personal payment by the GPs involved could well avoid possible disputes. Even where a partnership consists wholly of married men doctors, it is important to establish a precedent, as the practice may well take on single men or married women as partners in the future.

There is also a problem regarding the payment of wives' pensions (see next section). These must be paid by the employer and, in the case of partnership wives, their ages, and hence the premiums payable on these policies, can vary widely. It would indeed be unfair for a partnership to have to bear the cost of providing pensions for partners' wives of very different ages.

There is usually very little difficulty in negotiating the allowance for these salaries with HM Inspector of Taxes. It must of course be clearly understood that the lady must perform some recognisable service, which may be of a telephone answering, secretarial, chauffeuring or similar nature. Many doctors' wives of course are qualified doctors or nurses themselves and can quite clearly render a valuable service to their husbands in dealing with enquiries from patients.

The Inland Revenue will normally expect the salary to be actually paid, that is by a physical transfer of funds into the wife's own bank account or, if one is not in existence, by a cash or similar transfer.

If these requirements are met, there

should be very little difficulty in obtaining agreement from HM Inspector of Taxes.

7b A Pension for your Spouse

Just as a doctor might employ his wife in his practice and pay her a salary so, as her employer, may he contribute to a pension scheme on her behalf, the contributions to which will, subject to Inland Revenue approval of the scheme, rank for full income tax relief at the doctor's own top rate of tax.

Contrast this measure of available tax relief with that on other investments – even life-assurance-based savings plans only attract tax relief at the rate of 15 per cent.

Contributions towards such a pension plan can however vary widely between the various insurance companies able to offer such plans and depend, of course, on the age of the doctor's wife and proposed retirement date.

Therefore where the doctor is a member of a partnership the contributions should be paid by him personally without the involvement of any of his partners. For this reason alone a wife's salary (see previous section) should be paid by the doctor personally and not out of partnership funds.

Pension provision is a highly competitive area and any doctor contemplating effecting a pension plan for his wife would be well advised to seek guidance from one of the specialist brokerages dealing with the profession, and to obtain more than one quotation.

In any consideration of pensions, however, it is important to distinguish clearly the difference in the benefits provided rather than simply comparing the suggested level of contribution.

This is particularly important if the plan involves any estimate as to the future performance of shares or property values where short term past performance can have little bearing on the outcome over the years ahead.

It is important to ensure that the scheme has the approval of the Inland Revenue, otherwise tax relief will not be granted.

Suitable sources for advice are:

Doctor Insurance Services
Pulse Insurance Bureau
MPU Insurance Selection Ltd
Medical Insurance Agency Ltd
Medical and Professional Insurance Bureau.

Insurance companies that could be approached directly are: Equitable Life; London Life; Norwich Union; Provident Mutual Life; Scottish Amicable; and Standard Life.

Doctors contemplating such pension plans often ask what is the maximum amount which they can contribute and still obtain full tax relief. The maximum contributions permitted are the amount required to purchase a pension based on a maximum of two-thirds of the final salary of the wife upon retirement age (subject to the wife having completed at least ten years' service by pension age).

Depending upon the wife's age at entry to the scheme and the intended pension age the cost can often vary between 10 per cent of salary up to 300 per cent of salary!

It is, within the latitude allowed by the Inland Revenue, usual to provide for a wife's pension age to coincide with the doctor's own anticipated retirement date. The Inland Revenue will permit this pension age for the wife to be selected from any time between age 55 and age 75.

In the event of circumstances changing, however, the schemes are normally sufficiently flexible to enable benefits to be taken at any time within ten years of the selected pension age or deferred to some time after pension age but to no later than age 75. The expected benefits from the scheme would however be reduced or increased accordingly.

Upon retirement and commencing to receive the pension this will be treated as earned income in the hands of the wife and unless she is receiving any additional earned income it will normally fall within the limit of personal allowance, and hence be entirely exempt for income tax purposes in her own hands, during the joint lifetime of husband and wife.

As a matter of interest for those female doctors who pay a salary to their husbands there is no reason why a similar pension arrangement cannot be considered for his benefit, particularly if he will not be in receipt of any other employer's pension benefit during retirement.

7c Deeds of Covenant

With many children of GPs going on to partake of higher education, most of them at universities or medical schools where they earn no income in their own right, the substantial tax advantages of taking out a Deed of Covenant in favour of such a beneficiary have become clear and of wide application in recent years.

Put at its simplest, a deed of covenant is merely a legal means of transferring taxable income from one person to another. As an annual charge on the income of the donor, it is allowable for income tax purposes against his income, such relief in fact being given by deduction of tax at source. Thus, a gross payment of £1 000 under covenant would in fact be actually paid as an amount of £700 pa (£1 000 less tax at 30 per cent). The covenant must start after the child's 18th birthday, otherwise the income from it will be treated and taxed as being the parents' income.

What, then, is the position of the beneficiary, the person to whom the payments are made? He, on his part, receives the covenanted payments after deduction of tax so that, in the example quoted above, he is in fact receiving £700, ie £1 000 less tax at 30 per cent. Provided that he has no other substantial income and that the gross amount of the covenant is not above the level of his personal allowance (currently £1 785.00) he can then recover the total amount of tax deducted at source.

If, as is frequently the case, the covenanted payments are up to the personal allowance level this represents a monthly payment in 1983-84 of £104.13 (£1 249.50 pa) the beneficiary being entitled to recover tax of the balance, ie £535.50. The donor should give to the beneficiary each year a certificate of deduction of tax, on form R185(AP). The beneficiary then obtains from his local tax office an income tax repayment claim, or completes his annual return accordingly and in due course the amount of tax suffered will be repaid to him.

There are certain legal formalities to be gone into before the deed becomes a valid document, effective for taxation purposes. Although these are too numerous to go into in detail in the space available here, the last payment under the deed must be made not less than six years after the first payment, although in effect most deeds are executed for a seven-year period, the death of either party or the beneficiary ceasing full-time education, whichever is the sooner. The amount payable cannot be increased without executing a further valid deed.

The deed must also be signed, witnessed by a third and disinterested party, sealed at the time of signing and delivered from one party to the other. The money must be seen to be transferred. The Inland Revenue may wish to satisfy itself that there is no unwritten agreement in existence to ensure that money given by the donor will not be immediately handed back again. They

Illustration 1 Deed of Covenant

THIS DEED OF COVENANT, made the thirtieth day of September 1983, between JOHN EDWARD SMITH, General Medical Practitioner, of 34 Queens Avenue, Kingstown (hereinafter called The Grantor) of the one part and JAMES EDWARD SMITH of 34 Queen's Avenue, aforesaid (hereinafter called The Beneficiary) of the other part.

WITNESSETH as follows:-

1. In consideration of the natural love and affection of the grantor for the beneficiary, the grantor hereby covenants with the beneficiary that he will pay to the beneficiary for the period of seven years from the 1st day of October 1983 or during the joint lives of the grantor and the beneficiary whichever period shall be the shorter or until such time as the beneficiary shall cease to be engaged in full-time education a monthly amount of £104.13 (one hundred and four pounds thirteen pence), such a sum to be deemed to have been made after deduction of income tax at the basic rate in force at the time.

2. The grantor further covenants with the beneficiary that he will on request deliver to the beneficiary a certificate in appropriate form that the grantor has deducted income tax at the basic rate in force at the time from all payments made by him hereunder during the last preceding fiscal year.

SIGNED, SEALED AND DELIVERED, by the said in the presence of:

Dr J. E. Smith has decided to make a deed of covenant in favour of his medical student son, Mr J. E. Smith. The monthly payment of £104.13 (£1 249.50 pa) is calculated as the personal allowance level (£1 785 in 1983-84) less tax at 30 per cent in 1983-84 (£535.50) = £1 249.50.

may ask both parties to sign a certificate to this effect.

Deeds of Covenant may also be used to transfer income to beneficiaries who are not students; an invalid or incapacitated child over 18, for instance, an elderly relative or family retainer. The principle still remains that if the beneficiary has no other income he or she will be able to recover the whole of the tax suffered.

Deeds of Covenant are frequently used, too, to make donations to charities by means of which the charity, as a tax-exempt body, can recover the tax suffered. This now has additional advantages for higher-rate taxpayers, in that the payments made under these deeds can be allowable against tax at higher rates.

A further recent development has been that the student who claims unemployment benefit during holidays may be unable to claim this if he receives income from such a deed. It is therefore becoming frequent for deeds to be dated in such a way that the payments, if not an annual lump sum, are made during term-time and not during holidays when social security benefit

Illustration 2 Deed of Covenant

Mr J. E. Smith Mr J. E. Smith

Gross income from Deed of Covenant	£1 785
Less: personal allowance	£1 785
	—

Tax £535.50 deducted will be fully repaid.

If James Smith had worked during his vacation and received total wages of £500, the repayment would be reduced as follows:

Gross Income from Deed	£1 785
Earned Income	500
	2 285
Less: personal allowance	1 785
taxable income	£ 500

Tax liability: £500 @ 30 per cent	£150.00
Tax deducted from deed	535.50
Tax repayable to James Smith	£385.50

Thus there is nothing lost by the beneficiary's income being above the personal allowance level except part of the tax refund.

may be claimed.

The illustrations show a typical deed of covenant, form R185(AP) and a calculation of a typical repayment of income tax.

7d Settlements

The introduction of Capital Transfer Tax has not destroyed the value of Settlements.

It is possible to establish them in favour of children with quite modest amounts. The annual exemption limits of both husband and wife can be used, and income accumulated during the minority of the children, to provide a fund to assist with maintenance and education during adolescence.

Most banks and some accountants have trust departments that can offer advice and carry out the administration of the funds. It is advantageous to do this in conjunction with tax planning.

There are also Voluntary Settlements which can be made by a settler for his own benefit. Although not a tax saving vehicle they can be helpful in the administration of complicated affairs.

Certificate of deduction of income tax

I certify that on paying to ....

....

of ....

....

the sum shown in column 2 below, I deducted the amount of income tax shown in column 3, and I further certify that this tax has been or will be paid by me either directly or by way of deduction from other income when received by me.

Signature (*see Note (a)*) .... **Date**..............................

Enter here — your private address ▶

Enter here — if you are in business-
your business address
or — if you are employed-
the name and address of your employer ▶

Nature of the annual payment 1	Gross amount of the payment from which I have deducted the tax 2	Amount of income tax deducted by me (*see Note (b)*) 3	Date on which payment made 4	Consecutive number of payment 5	*Please do not write in the spaces below*
Annual payment under Deed of Covenant dated	£	£			*"I.R." stamp*
					"Duty assessed" stamp

Notes (a) This form should be signed by the person deducting the tax and responsible for accounting for it to the Revenue. Where the person concerned is deducting the tax on behalf of his employer, e.g. as secretary, cashier, etc., this should be stated.

(b) This form should not be used where income tax has not in fact been deducted from the gross amount payable.

The person receiving the payments should keep this form. It will be needed as evidence of tax deducted if a claim to relief from tax is made.

R185 (AP)

TB/Bn. 52–1804/1A 551337 8/78

8 The Accounts

8a Practice Book-keeping

The basic ingredients for practice book-keeping are:

1. A calculator
2. A member of staff who is numerate and not afraid of using the calculator
3. Cashbooks as advised by the accountant
4. A petty cash box
5. A PAYE book.

A partner who understands something of elementary book-keeping to oversee the system is a valuable addition to the mix but no doctor should need to spend valuable time on the detailed work.

If you have not already done so you should ask the practice accountant to advise on the setting up of a system, since it is he who will receive the end results when doing the practice accounts.

The main NHS income of a practice comes to you from the FPC monthly or quarterly by cheque or credit transfer. If careful records are kept of all claims for items of service it should be possible to get a fairly clear idea of whether claims and payments match up. Various systems of recording claims have been developed by practices.

Someone should also check the practice list size as soon as the FPC's calculation for the quarter arrives (effective on the 1st of the month). The practice then has ten days to query the total, 11 days for detailed objections. New registrations from FP1s, FP4s, FP13s, FP58s and temporary record cards FP7/8s should have been recorded, as should all removals notified by the FPC.

Recording the fees from non-NHS work involves entering, in some kind of cashbook, detailed and dated, every sum of money received and any service given for which payment is due. This must be done in such a way that it is easy to spot and follow up unpaid items.

A list of debtors should be extracted at the end of the practice's accounting year.

Petty cash can be entered in a petty cash book, with all the receipts or petty cash vouchers filed, or a float can be kept of, say, £25. This can be topped up when necessary by drawing a cheque for the amount required which, when totalled with the receipts or petty cash vouchers in the cashbox, should equal £25 again.

Usually all the accountant will need at the year's end are the cash book or books, bank statements, cheque stubs (with all details recorded), paying-in books (ditto), list of debtors and PAYE book.

PAYE is not as difficult as it looks at first sight, the weekly/monthly forms to be completed for each employee have recently been simplified and the Inland Revenue supplies an Employer's Guide to PAYE. Your accountant can tell you the minimum salary at which staff have to pay tax and National Insurance.

8b Rent, Rates and Ancillary Staff

Because rent and rates are fully reimbursed a number of practices do not show these as an entry in their accounts. The same applies to the 70 per cent of ancillary staff salaries and the 100 per cent of their National Insurance which are reimbursed.

All these should be shown as entries in the Income and Expenditure columns of the account books even when, in a health centre, they are a transaction between the family practitioner committee and the health authority without your being involved at all.

'Netting out' as the omission of these payments is called, can result in the under-reporting of GPs' expenses to the Review Body with a consequent lower allowance for expenses in future Review Body Reports.

Claims for refund of rent, rates and water rates should be made to the FPC as soon as payment is made. Where a practice owns its own premises it can elect to be paid an agreed rent allowance monthly.

A point to remember is that if your income from non-NHS sources amounts to more than 10 per cent of your gross income your reimbursement of rent, rates and ancillary staff salaries will be abated accordingly.

However, private work outside the practice premises, not using ancillary staff, is not taken into account, so you should try to carry it out elsewhere. Income from governmental sources other than the NHS is not considered 'private'.

8c Presentation of Accounts

A glazed look comes over most people's eyes when they are confronted with end-of-year accounts. What looked fairly straightforward in the cash book becomes completely incomprehensible as a profit and loss account.

So don't be ashamed to ask the accountant to explain it and to go into detail where necessary as to how the figures are arrived at.

He should then also, if he is well-acquainted with the affairs of the practice, be able to advise on the regular sums to put away against tax and National Insurance, and the drawings that can be made regularly by each partner according to their tax position and practice share.

He should be able, by comparison with previous years, to highlight practice weaknesses, any falling off in income from items of service or private work which may indicate inadequate record keeping. It may, on the other hand, indicate changes in the practice population of which you should be aware so that you can make plans for retrieving the position.

Ideally he should also be able to project the practice position further into the future, to enable you to make long-term plans for improvements, for capital expenditure such as, say, the purchase of a microcomputer to facilitate the practice organisation.

This would not replace the accountant but would certainly ease his, as well as your book-keeper's work, with a well-thought-out program for processing the accounts.

8d The Accountant

To sum up, your accountant is both your adviser on tax affairs and your expert negotiator with the tax inspector. He will usually have most of his dealings with the same tax office, where his credibility is vital to the success of your claims. He will usually have a shrewd idea of what is, and what is not, acceptable locally.

What you should expect from him is, of course, the preparation of the annual accounts for the practice, the annual Income Tax Return for the doctor and the annual claim for practice expenses for the partner. He will also give advice on superannuation and retirement, on partnership changes, on the partnership finance and possibly general financial advice.

In return he must have properly-kept books to work from, prompt response to his queries, information about changes in the practice and, generally, the confidence and trust of the partners.

Given these, the accountant well versed in the complexities of GP finance can unquestionably repay the practice far more than his fees in income gained and tax saved.