

Topical tax tips for orthodontists

PRIYA KOTECHA gives us some important tips to help make life easier when it comes to your finances

With summer fast approaching, it is hard not to be in a good mood with the sun shining, the birds singing and the bees buzzing. But before you get too carried away (I can almost hear you whistling a merry little tune to yourselves), remember that there is always tax to deal with.

But fear not - I have put together five tips which I hope will help you deal with some of the tax issues you may currently face!

1. You may have received some letters from NHS pensions with an annual allowance pensions savings statement. Perhaps you have put this in your box of 'annoying things to deal with when you have exhausted every other possible task.' What do they mean?

Essentially, there is now a cap of how much you can pay into pensions each year and this cap is set at £40k per annum. If you are lucky enough to earn more than £150,000, the £40,000 goes down by £1 for every £2 over £150,000 your income is, down to a minimum of £10,000 for incomes of £210,000 or above. You are allowed to use any unused parts of caps from the previous three years towards the current year.

This is all pretty easy to calculate if all you do is pay personal contributions but what becomes really tricky is superannuation as it doesn't matter what YOU pay in, you have to look at what is deemed to be paid in because it is such a heavily subsidised scheme. These letters tell you the deemed contribution (that is the growth figure) and you need to look at the deemed contribution from both schemes (95 and 2008) and your GROSS personal pension contributions each year to work out how much in each year. Then you can work out if you have gone over the cap when taking into account to previous three years unused contributions and if you have - you will



need to pay some extra tax. In some cases, NHS will pay the tax charge from your superannuation pension fund for you but conditions apply as to when and how much and you do need to apply for this.

Is there a shortcut? Yes - forward the letters to your accountant!

2. Making tax digital

There has been much talk about this but finally we understand it is coming in from April 2019 for Vat registered businesses for Vat related transactions and April 2020 for other businesses where turnover exceeds the VAT threshold (currently £85,000). Initially it is thought limited companies will not have to comply until later.

In time, it is expected that HMRC will expect every single transaction per quarter to be uploaded to them via a client portal. It is therefore essential to start gearing up for this change as follows:

a. Make sure that you are able to

download your bank statements to csv or excel which will make the transfer of data much smoother.

b. Make sure that you use a separate account for anything work related and a separate credit card for work transactions. There should be no personal transactions on these

FACTFILE



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accounts and you should stick to using 1 bank account per business and ensure all expenses of that business come through on that account or credit card statement.

c. Speak to your accountant for further guidance!

3. If you have a property which has been rented out and you are aware that you may not have disclosed this on your income tax returns in the past, now is potentially the time to come forward.

HMRC has a supercomputer 'Connect' (always makes me think of 'deep thought' the computer in The Hitchhikers Guide to the Galaxy which was created to answer the ultimate question to 'Life, the Universe and Everything') which is apparently being used to gather far-reaching data on taxpayers and crack down on those with undeclared rental income. Making a voluntary disclosure is likely to result in better settlement terms than if you wait for a brown envelope to drop through your letterbox. Recent figures suggest as many as half of all landlords in Newham failed to declare rental income.

4. Something I get asked a lot by both principals and orthodontic associates, is how deductions for superannuation etc ought to be reflected. I know that, strictly speaking, this is not a tax tip, but I hope you will not hold that against me!

The NHS deducts superannuation from the NHS income that they pay to the practice and that superannuation is broken down by each orthodontist. What the principal then needs to do is to deduct the amount of superannuation and any levies that have been deducted from them for their associates, from the pay they give to the associates. If there is ever an adjustment to superannuation and the principal receives a refund of associates superannuation, this must be added in full to the associate's pay for that month.

To check that your principal has deducted the correct amount from you AND the NHS have not made errors, you as an associate can compare how much superannuation has been deducted for you in the year to 31st March each year, ignoring any adjustments that relate to the earlier tax year which may have come through in the current year.

Add or, in the case of a refund, deduct from this any adjustments that have been made in the following year relating to



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the current year (often happens around August) and compare the total you have with how much is shown on your SD86C as having been contributed in that year. It should be about the same.

Principals can do exactly the same by checking how much has been deducted from their practice NHS schedule for their own superannuation for the current year (again reflecting adjustments of the following year relating to the current)

5. Something else I get asked a lot is how to manage tax liabilities (the million dollar question - if ever there was one!) I would normally recommend setting aside a certain percentage of your income to cover your tax liabilities, but sometimes income goes down or expenses go up. Can anything be done? Yes!

Whether you are self employed and paying tax on your profits or the director of a limited company paying tax on your salary and dividends, if either income stream goes down in the current tax year for which you are making payments on account in January and July, you can ask for these to be reduced. HMRC always assume that the current years tax is going to be the same as the previous years and base the payments on account of the current year on last year.

For example, if your tax liability for 16/17 was £40,000, it means that each payment on account of 17/18 will be £20,000 (one on 31st January 2018 and the second on 31st July 2018). If you are reasonably confident that 17/18 tax will only be say £30,000, the two payments you are making on account of 17/18 can be reduced to a total of £30,000 (so perhaps £15,000 each instead of £20,000 each). If you reduce your payments on account by too much and it transpires that your tax liability wasn't as low as you estimated, HMRC will charge you interest on the balance!

What if you just don't have the cash? Sometimes, life happens. Maybe you expanded your business, got divorced, bought a new house...but for whatever reason the tax you had set aside to pay your tax - just isn't there anymore. What can you do?

HMRC have a time to pay helpline on which they may be able to agree payment terms with you. Interest will still be charged, but so long as you stick to the payment schedule, you should be able to avoid penalties.

It is meant to be a last resort so HMRC will first attempt to satisfy themselves that you really have no other avenue available to you including getting a loan!

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