

Focus on the new tax brackets and other financial considerations

March 2010

This guidance has been produced by the General Practitioners Committee to highlight potential ways to mitigate the effects of the tax changes which will affect doctors earning over £100,000, and other financial considerations arising as a result. It should be noted that this guidance is not comprehensive; members should consider their own case in the light of their personal circumstances and **take advice where necessary from an accountant.**

Background

The Finance Bill 2008-09 introduced significant changes affecting those earning over £100,000, which will come into effect from 6 April 2010. Changes include:

- a new higher rate of income tax of 50% on total income (including all income, not just wages, salaries and profits) over £150,000 (see Table 1 below);
- the gradual withdrawal of the personal allowance for those whose adjusted net income exceeds £100,000. The personal allowance will be reduced by £1 for every £2 of income in excess of the £100,000 threshold.

Table 1

Taxable income	Effective marginal rate of income tax on taxable income above £100k
£112,950	60.00%
£120,000	52.95%
£130,000	48.63%
£140,000	46.47%

Further changes will come into effect in 2011/12:

- National Insurance contributions will be increased (announced in Nov 2008 Pre-Budget Report);
- tax relief will be restricted on pension contributions for individuals with a taxable income in excess of £150k –
 - the relief will be tapered from 50% to 20% for those with a taxable income of >£180k;
 - the basis of such tapering is awaiting Treasury consultations;
 - transitional legislation has been proposed to restrict tax relief for those with taxable income (net adjusted pay) of >£150k to the 2009/10 and 2010/11 tax year.

Advice on mitigating the effects of the taxation changes

GP partners should be aware that superannuation contributions step up a whole percentage point when superannuable profits reach £100k. In addition, personal allowances (from 2010/11) are reduced to those earning a taxable income of £100k or over (and again at £140k), with proposed income tax rate hikes at

the £150k level (from 2011/12). These changes merit careful financial advice from the practice accountant when individuals are closely approaching incomes in this range.

The loss of personal allowance, the increase in the higher rate of income tax and the step change in superannuation payments means that those earning around £100 - 110k will be hit particularly badly by the changes – effectively paying marginal rates of 90% tax on income over £100k.

An alternative to paying such high marginal rates of tax could be for partners to improve their work-life balance by taking on more staff, reducing their income and time commitment to their practices. Taking on a new GP partner is one way in which this could be achieved, and may well prove to be more cost effective than employing a salaried GP.

The effect of tax changes mitigates towards a three-quarter-time commitment from GP partners. In part time posts, there is a balance between the amount of time spent on core patient contact and working within the practice, and the ability to carry out additional activities which may be of a professional or social nature, such as family commitments or taking on an additional professional role (e.g. teaching, Practice Based Commissioning and areas of special interest (GPwSI)). However, this must be balanced by the need to maintain someone in the surgery for the sake of continuity.

How recent tax proposals could affect income

Attached are four spreadsheets which illustrate how the recent tax proposals could affect income over the years 2009-2012*. Headline increases in tax rates have been avoided by a rise in National Insurance, which could hit the self employed, including GPs, very badly indeed.

These spreadsheets do not include the impact of withdrawal of tax relief on pensions. If the worst case scenario comes to pass it is quite possible that take home pay for practices earning above 130K could drop by 1-2k per month as the result of tax relief withdrawal.

Impact of changes to tax relief on pension contributions

There is considerable uncertainty about tax relief on pension contributions. Following the introduction of a new additional rate of income tax of 50%, applying to taxable income over £150,000, the Chancellor announced that from 6 April 2011, tax relief on pension contributions for high earners will be restricted.

There is further information about this in the BMA guidance, *Impact of the 2009 budget on pensions*:

www.bma.org.uk/employmentandcontracts/pensions/general_pensions_information/impbudg09pens.jsp

Advice on mitigating the effects of the National Insurance alterations

Deferment of Class 1 NI contributions – Where the doctor is both employed and self-employed

Where a doctor is both employed and self-employed, HMRC may make special arrangements to avoid excessive contributions being paid in the tax year. HMRC must be satisfied that the total amount of Class 1 NI contributions which are likely to be paid by the doctor, together with any Class 4 NI, will exceed the maximum Class 1 and Class 2 amounts payable for that year.

The doctor will need to apply for the deferment certificate and will be responsible for paying across to HMRC any shortfall, should insufficient NI be paid during the year concerned. It will be in doctors' own best interests to seek advice well ahead of the end of this tax year in April 2010.

Further guidance on tax and national insurance is available to BMA members on the BMA website:

www.bma.org.uk/employmentandcontracts/tax/index.jsp

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1. The BMA does not give financial advice.
2. The figures provided are for illustrative purposes only.
3. The BMA strongly advises that any GPs that have concerns relating to tax should seek individual advice from specialist financial advisers.

Specialist accountants have examined the attached spreadsheets which calculate the amount of take home pay from specified levels of gross pay for the tax years 2009/10 to 2011/12 inclusive.

Their review consisted of confirming that:

- the rates and thresholds used for the calculation of tax and National Insurance were correct;
- the formulae used in the construction of the spreadsheets were correct; and
- a sample of the calculations used for each year were correct.

The spreadsheets were amended in order to show details of the assumptions on which they had been prepared. The rates, thresholds and allowances are based on the information available at present, including changes announced in the December 2009 pre-budget report, and no assumptions or predictions have been made as to any changes that may be made for future years as a result of budget or electoral changes.

The tax calculations have been based on the current level of personal allowance and neither the accountants nor GPDF have considered the effects on take home pay levels of allowances that may be enhanced or reduced as a result of members' personal circumstances.

The calculations have been calculated based on assumed profits for the tax years concerned and take no account of any loss reliefs that may be available to members.

The calculations have been prepared for illustrative purposes only and the BMA is unable to enter into any correspondence relating to members' personal circumstances. Members are strongly advised to seek professional guidance should they have any queries relating to how any changes to tax and National Insurance will affect them.

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Practice profit Share	Annual take home 2009-2010	Annual Take home 2010-2011	Annual Take home 2011-2012
£65,000.00	£38,610.25	£38,610.25	£38,086.90
£70,000.00	£41,006.75	£41,006.75	£40,433.40
£75,000.00	£42,998.25	£42,998.25	£42,374.90
£80,000.00	£45,367.75	£45,367.75	£44,694.40
£85,000.00	£47,737.25	£47,737.25	£47,013.90
£90,000.00	£50,106.75	£50,106.75	£49,333.40
£95,000.00	£52,476.25	£52,476.25	£51,652.90
£100,000.00	£54,845.75	£54,845.75	£53,972.40
£105,000.00	£57,215.25	£56,215.25	£55,291.90
£110,000.00	£58,990.75	£56,990.75	£56,017.40
£115,000.00	£61,333.25	£58,743.25	£57,719.90
£120,000.00	£63,675.75	£61,085.75	£60,012.40
£125,000.00	£66,018.25	£63,428.25	£62,304.90
£130,000.00	£68,360.75	£65,770.75	£64,597.40
£135,000.00	£70,703.25	£68,113.25	£66,889.90
£140,000.00	£73,045.75	£70,455.75	£69,182.40
£145,000.00	£75,388.25	£72,798.25	£71,474.90
£150,000.00	£77,730.75	£75,140.75	£73,767.40
£155,000.00	£80,073.25	£77,483.25	£76,059.90
£160,000.00	£82,415.75	£79,825.75	£78,352.40
£165,000.00	£84,758.25	£82,168.25	£80,644.90
£170,000.00	£87,100.75	£84,510.75	£82,937.40
£175,000.00	£89,443.25	£86,853.25	£85,229.90
£180,000.00	£91,785.75	£89,195.75	£87,522.40
£185,000.00	£94,128.25	£91,538.25	£89,814.90
£190,000.00	£96,965.75	£93,728.25	£91,954.90
£195,000.00	£98,909.50	£95,672.00	£93,848.65
£200,000.00	£100,853.25	£97,615.75	£95,742.40

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Notes:

The calculations are based on the standard personal tax allowance. Members may be entitled to higher allowances or have allowance restrictions depending on their personal circumstances.

All calculations are based on profits earned for the tax year in question. Different loss reliefs for prior years may be available for tax and National Insurance purposes.

All rates, allowances and thresholds are based on the currently available information. Rates are subject to change resulting from budgets, changes in legislation and possible General Elections.

GPDF cannot be held responsible for any losses arising as a result of any actions taken based on the information contained within this spreadsheet and we recommend that you seek professional guidance when considering your tax affairs.

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Practice profit Share	NHS Superannable discount quantum	NHS Pensionable income	NHS pension contributions	Total Superann %	Superann Deductions	NI Class 2 2.40 pw	NI class 4 @ 8% 8% between 5715 and 43875	NI Class 4 1% over 43875	Total NI deducti A minus H	Gross taxable income	Personal allowance 6475 to 100K	Net taxable income M minus N	Annual take home A-H P-L	Monthly take home	% take home to gross			
2009-2010											After 100K reduces By 1 for 2 earned above 112950	20% to 37400 40% to 149999 50% ovr 150 K Total tax to 37400 is 7480 total tax at 40% is 45040						
			"Employee" to 68392	6.50%														
			68392 to 107846	7.50%														
			107846	8.50%														
			"Employers" 14%															
											personal allowance							
£65,000.00	10.00%	£6,500.00	£58,500.00	14.00%	6.50%	20.50%	£11,992.50	£124.80	£3,053.00	£211.25	£3,264.25	£53,007.50	£6,475.00	£46,532.50	£11,133.00	£38,610.25	£3,217.52	59.40%
£70,000.00	10.00%	£7,000.00	£63,000.00	14.00%	6.50%	20.50%	£12,915.00	£124.80	£3,053.00	£261.25	£3,314.25	£57,085.00	£6,475.00	£50,610.00	£12,764.00	£41,006.75	£3,417.23	58.58%
£75,000.00	10.00%	£7,500.00	£67,500.00	14.00%	7.50%	21.50%	£14,512.50	£124.80	£3,053.00	£311.25	£3,364.25	£60,487.50	£6,475.00	£54,012.50	£14,125.00	£42,998.25	£3,583.19	57.33%
£80,000.00	10.00%	£8,000.00	£72,000.00	14.00%	7.50%	21.50%	£15,480.00	£124.80	£3,053.00	£361.25	£3,414.25	£64,520.00	£6,475.00	£58,045.00	£15,738.00	£45,367.75	£3,780.65	56.71%
£85,000.00	10.00%	£8,500.00	£76,500.00	14.00%	7.50%	21.50%	£16,447.50	£124.80	£3,053.00	£411.25	£3,464.25	£68,552.50	£6,475.00	£62,077.50	£17,351.00	£47,737.25	£3,978.10	56.16%
£90,000.00	10.00%	£9,000.00	£81,000.00	14.00%	7.50%	21.50%	£17,415.00	£124.80	£3,053.00	£461.25	£3,514.25	£72,585.00	£6,475.00	£66,110.00	£18,964.00	£50,106.75	£4,175.56	55.67%
£95,000.00	10.00%	£9,500.00	£85,500.00	14.00%	7.50%	21.50%	£18,382.50	£124.80	£3,053.00	£511.25	£3,564.25	£76,617.50	£6,475.00	£70,142.50	£20,577.00	£52,476.25	£4,373.02	55.24%
£100,000.00	10.00%	£10,000.00	£90,000.00	14.00%	7.50%	21.50%	£19,350.00	£124.80	£3,053.00	£561.25	£3,614.25	£80,650.00	£6,475.00	£74,175.00	£22,190.00	£54,845.75	£4,570.48	54.85%
£105,000.00	10.00%	£10,500.00	£94,500.00	14.00%	7.50%	21.50%	£20,317.50	£124.80	£3,053.00	£611.25	£3,664.25	£84,682.50	£6,475.00	£78,207.50	£23,803.00	£57,215.25	£4,767.94	54.49%
£110,000.00	10.00%	£11,000.00	£99,000.00	14.00%	8.50%	22.50%	£22,275.00	£124.80	£3,053.00	£661.25	£3,714.25	£88,725.00	£6,475.00	£81,250.00	£25,020.00	£58,990.75	£4,915.90	53.63%
£115,000.00	10.00%	£11,500.00	£103,500.00	14.00%	8.50%	22.50%	£23,287.50	£124.80	£3,053.00	£711.25	£3,764.25	£91,712.50	£6,475.00	£85,237.50	£26,615.00	£61,333.25	£5,111.10	53.33%
£120,000.00	10.00%	£12,000.00	£108,000.00	14.00%	8.50%	22.50%	£24,300.00	£124.80	£3,053.00	£761.25	£3,814.25	£95,700.00	£6,475.00	£89,225.00	£28,210.00	£63,675.75	£5,306.31	53.06%
£125,000.00	10.00%	£12,500.00	£112,500.00	14.00%	8.50%	22.50%	£25,312.50	£124.80	£3,053.00	£811.25	£3,864.25	£99,687.50	£6,475.00	£93,212.50	£29,805.00	£66,018.25	£5,501.52	52.81%
£130,000.00	10.00%	£13,000.00	£117,000.00	14.00%	8.50%	22.50%	£26,325.00	£124.80	£3,053.00	£861.25	£3,914.25	£103,675.00	£6,475.00	£97,200.00	£31,400.00	£68,360.75	£5,696.73	52.59%
£135,000.00	10.00%	£13,500.00	£121,500.00	14.00%	8.50%	22.50%	£27,337.50	£124.80	£3,053.00	£911.25	£3,964.25	£107,662.50	£6,475.00	£101,187.50	£32,995.00	£70,703.25	£5,891.94	52.37%
£140,000.00	10.00%	£14,000.00	£126,000.00	14.00%	8.50%	22.50%	£28,350.00	£124.80	£3,053.00	£961.25	£4,014.25	£111,650.00	£6,475.00	£105,175.00	£34,590.00	£73,045.75	£6,087.15	52.18%
£145,000.00	10.00%	£14,500.00	£130,500.00	14.00%	8.50%	22.50%	£29,362.50	£124.80	£3,053.00	£1,011.25	£4,064.25	£115,637.50	£6,475.00	£109,162.50	£36,185.00	£75,388.25	£6,282.35	51.99%
£150,000.00	10.00%	£15,000.00	£135,000.00	14.00%	8.50%	22.50%	£30,375.00	£124.80	£3,053.00	£1,061.25	£4,114.25	£119,625.00	£6,475.00	£113,150.00	£37,780.00	£77,730.75	£6,477.56	51.82%
£155,000.00	10.00%	£15,500.00	£139,500.00	14.00%	8.50%	22.50%	£31,387.50	£124.80	£3,053.00	£1,111.25	£4,164.25	£123,612.50	£6,475.00	£117,137.50	£39,375.00	£80,073.25	£6,672.77	51.66%
£160,000.00	10.00%	£16,000.00	£144,000.00	14.00%	8.50%	22.50%	£32,400.00	£124.80	£3,053.00	£1,161.25	£4,214.25	£127,600.00	£6,475.00	£121,125.00	£40,970.00	£82,415.75	£6,867.98	51.51%
£165,000.00	10.00%	£16,500.00	£148,500.00	14.00%	8.50%	22.50%	£33,412.50	£124.80	£3,053.00	£1,211.25	£4,264.25	£131,587.50	£6,475.00	£125,112.50	£42,565.00	£84,758.25	£7,063.19	51.37%
£170,000.00	10.00%	£17,000.00	£153,000.00	14.00%	8.50%	22.50%	£34,425.00	£124.80	£3,053.00	£1,261.25	£4,314.25	£135,575.00	£6,475.00	£129,100.00	£44,160.00	£87,100.75	£7,258.40	51.24%
£175,000.00	10.00%	£17,500.00	£157,500.00	14.00%	8.50%	22.50%	£35,437.50	£124.80	£3,053.00	£1,311.25	£4,364.25	£139,562.50	£6,475.00	£133,087.50	£45,755.00	£89,443.25	£7,453.60	51.11%
£180,000.00	10.00%	£18,000.00	£162,000.00	14.00%	8.50%	22.50%	£36,450.00	£124.80	£3,053.00	£1,361.25	£4,414.25	£143,550.00	£6,475.00	£137,075.00	£47,350.00	£91,785.75	£7,648.81	50.99%
£185,000.00	10.00%	£18,500.00	£166,500.00	14.00%	8.50%	22.50%	£37,462.50	£124.80	£3,053.00	£1,411.25	£4,464.25	£147,537.50	£6,475.00	£141,062.50	£48,945.00	£94,128.25	£7,844.02	50.88%
£190,000.00	10.00%	£19,000.00	£171,000.00	14.00%	8.50%	22.50%	£38,475.00	£124.80	£3,053.00	£1,461.25	£4,514.25	£151,525.00	£6,475.00	£145,050.00	£50,045.00	£96,965.75	£8,080.48	51.03%
£195,000.00	10.00%	£19,500.00	£175,500.00	14.00%	8.50%	22.50%	£39,487.50	£124.80	£3,053.00	£1,511.25	£4,564.25	£155,512.50	£6,475.00	£149,037.50	£52,038.75	£98,909.50	£8,242.46	50.72%
£200,000.00	10.00%	£20,000.00	£180,000.00	14.00%	8.50%	22.50%	£40,500.00	£124.80	£3,053.00	£1,561.25	£4,614.25	£159,500.00	£6,475.00	£153,025.00	£54,032.50	£100,853.25	£8,404.44	50.43%

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