



BUDGET IMPACT FOR DENTISTS - April 2009

PFM's initial budget response and summary follows below. Further updates can be found at www.pfmdental.co.uk

As the dust settles on the recent Budget we have produced a "plain English" guide to some of the key issues which will impact on your personal and business finances in 2009/10.

Given the current global economic crisis and UK budgetary deficit no-one expected the Budget to be 'pretty' and, as expected, high rate tax payers have taken the brunt of the Chancellor's legislative measures.

Income tax

- From 6th April 2010 there will be a 50% rate tax on taxable income above £150,000.
- Your personal allowance will reduce by £1 for every £2 of income over £100,000.
- Dentists who have incorporated are hit with dividends taxed at 42.5% if their income exceeds £150,000.

Pension tax relief capped for those with income of £150,000 or more

Complex rules have been introduced for individuals with income which exceeds £150,000. Advice will be essential due to the introduction of interim rules which take immediate effect. **We encourage all dentists to take advice to determine how this affects their pension funding and tax relief claims.**

- Please note the changes do not affect those with income of less than £150,000, who will continue to benefit from high rate pension tax relief subject to the usual limits.
- High income individuals will need to take great care with additional pension contributions. Please note high rate tax relief is still available to high income individuals in 2009/10 up to the higher of £20,000 and the regular amount of pension provision made before 22nd April 2009 (i.e. where there is an existing commitment to regular contributions – subject to the definitions).
- The definition of high income includes all taxable earned income as well as investment income such as dividends, interest and rental with adjustments for pension contributions and other reliefs.
- NHS superannuation benefits are also included in these calculations. As a defined benefit scheme, PFM can assist you to calculate the value of your NHS benefits against the new allowances.

It is important that all dentists take advice, particularly those that may be affected by the £150,000 income threshold. **We encourage dentists to review pension contributions in respect of their spouse or partner to make the most of available reliefs and allowances.** Practice owners should consider employer pension contributions also.

Individual Savings Accounts (ISAs)

- The ISA limit is to be raised from 6th October 2009 for people aged 50 and over to £10,200 (£5,100 of which can be saved in a Cash ISA).
- From 6th April 2010 this new limit will apply to all ISA investors.

Freezing of pension annual and lifetime allowances

The Chancellor has confirmed that the freezing of the pension and lifetime allowances will be set at their 2010/11 levels until 2015/16. This could affect dentists with substantial NHS earnings and personal pension funds. The allowances are:

- Annual limit on pension contributions £ 255,000
- Lifetime allowance for pension funds £ 1,800,000

Inheritance Tax

The individual inheritance tax nil-rate band for 2009/10 has increased to £325,000.

- 0% up to £325,000
- 40% above £325,000
- Various reliefs and exemptions remain available and should be used carefully.
- Unused nil-rate band can be transferred to the deceased's spouse or civil partner

Personal financial planning checklist:

- ✓ Review ISA contributions in line with increased allowance from October 2009 (if over 50).
- ✓ Review ISA contributions in line with increased allowance from 6th April 2010.
- ✓ Review personal pension contributions immediately to ensure you make the most of available tax relief.
- ✓ Review spouse/partner pension contributions and options for employer pension contributions.
- ✓ Review impact of 'frozen' lifetime pension fund allowance including a review of your NHS pension.

Capital allowances for practice investment – Temporary first year allowances

Since 1st April 2008 businesses that invest up to £50,000 on certain plant and equipment can write-off the entire amount against their taxable profits. Any excess over that limit is added to the pool of unrelieved expenditure and has qualified for a writing-down allowance of 20%.

- The Chancellor has announced that to encourage investment he will create a temporary first year allowance of 40% which will be applied to the excess over the £50,000 limit.
- The new 40% allowance will be available for just one year from 1st April 2009 and will apply to assets which would be added to the main capital allowances pool (except cars and assets used for leasing).

This is a valuable tax planning opportunity for those practices considering investment in the current tax year and could be useful in conjunction with reducing taxable income (for example where you may be close to the £150,000 threshold). Your accountant should be able to advise you further in this area.

Stamp Duty

Residential property buyers and property investors have a short window of opportunity before the nil-rate stamp duty band reduces in January 2010.

- 0% payable on residential property purchases up to £175,000
- 0% payable on residential property purchased up to £125,000 from 1st January 2010.

This summary is intended to provide relevant snippets from the recent Budget. For advice how the Budget may affect your financial planning please contact PFM – 01904 670820 or email info@pfmdental.co.uk. For further updates please visit www.pfmdental.co.uk

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