



Dentists offered a window of opportunity

For this tax year and the next it could be advantageous to invest to pensions with tax relief at your highest rates. However you should seek advice first to ensure that you will not be subject to any unwanted tax charges brought about by the new rules.

KEY ISSUES

- If your income is less than £150,000 but you're concerned that higher rate tax relief may be removed then look to maximise pension investment as a priority.
- If you have income of more than £150,000 you can still receive up to 40% tax relief on contributions of up to £20,000 for the next two tax years.
- If you don't have spare cash to make pension contributions you could consider transferring existing investments earmarked for retirement into a pension to receive tax relief of up to 40% (see page 2 to receive more details).

TAX SAVING TIPS

Dentists with relevant income over £150,000

- Start an employer's pension contribution for your spouse. If you pay your spouse as an employee a possible 40% tax relief is available by making an employer's pension contribution for them.
- If you don't yet pay your spouse a realistic wage for work in the practice then this needs serious consideration.
- Take care if you are thinking of reducing your personal pension contributions before 6th April 2011.
- Consider maximising your £20,000 special annual allowance whilst the option exists up to 5th April 2011. You should take advice on how much of your allowance is used up by your NHS pension. This is not simply the level of your NHS pension contribution.
- Are you borderline for high earnings? If so, there are significant benefits to using pension investment to keep below £150,000 of relevant income with opportunity available from pensions.

- Review alternative tax efficient investments including ISA, Unit Trust and Investment Bonds

Relevant income less than £150,000

- Maximise regular pension contributions. The recent legislation favours dentists who were making monthly pension contributions, over dentists making single contributions.
- Try to stay below the £150,000 threshold as this allows substantial pension investment with 40% tax relief on contributions.
- Use employer's pension contributions for spouse/partners.
- Consider alternative tax efficient savings vehicles such as ISA allowances.

Contact PFM for advice. Tel 01904 670820 or email info@pfmdental.co.uk



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Oh darling!

As the raid on higher-rate tax payers continues we recommend a practical strategy for fighting back...

The government has recently announced that the 50% income tax rate will arrive a year early (in the 2010/11 tax year) and that pension tax relief will be capped for 'high earners'. For now this pension restriction will only affect those earning over £150,000. However, anyone who pays higher rate tax should take note of the government's plans and take immediate action to optimise higher rate tax relief whilst it remains.

National Insurance rates are set to increase by 0.5% across the board and in 2010 dentists with taxable profits of more than £100,000 will see the removal of their personal allowance (£6,475 of tax free income).

Chancellor Darling has broken a Manifesto promise on income tax and worryingly set a precedent, showing clearly that he can withdraw tax benefits at any time and without notice. PFM believe that the Chancellor's focus on those with income of £150,000 or more is just the start of a "tax grab" that is likely to culminate in higher rate tax relief on pension contributions being phased out.

If you share our view it may make sense to take action while you still can!

Anti-forestalling

To prevent those who may be affected by the new rules from investing very large sums to pensions (and so qualifying for large levels of tax relief) prior to 2011, the government have introduced a raft of measures. These rules will apply to pension contributions paid in the current and next tax year only and will restrict higher rate tax relief for individuals who:

- have income of £150,000 or more (in the current or previous 2 tax years).
- change their normal ongoing regular pension savings, and
- whose total pension savings exceed £20,000.

So, if your income has exceeded £150,000 in the current or previous 2 tax years then you may be restricted to contributing *and receiving full tax relief on* no more than £20,000. Importantly, this limit includes 'deemed contributions' into the NHS Superannuation Scheme.

The changing face of tax relief

Until now, pensions have been relatively simple: You receive tax relief on contributions at your highest marginal rate. So if you were a higher rate taxpayer paying 40p tax in the Pound, each Pound invested into pensions would cost just 60p.

From 2011 there will be 4 tiers of tax relief instead of two.

Tax Relief Summary – from 6 April 2011

	Zone 1	Zone 2	Zone 3	Zone 4
Income Band	Low rates of tax	40% tax up to £150,000	£150,000-£180,000	> £180,000
Tax Relief	20%	40%	50% - 20% (tapered)	20%

Threshold amounts are subject to change

From 6 April 2011, anyone with an income exceeding £180,000 (Zone 4) will only be able to claim 20% relief on their pension contributions (effectively suffering a tax charge of 30%) while anyone with earnings in the range £150,000 to £180,000 (Zone 3) will get tapered relief between 50% (the new top rate of tax) and 20% on their entire contribution.

Zone 2: For now, those with incomes of less than £150,000 can continue to contribute as much as they earn. If you find yourself in this income bracket then you still have the opportunity to maximise tax relief at your highest rate.

Born before
1st October
1959?

ISA allowances
increase from
1st October
to £10,200 per
individual.



Advice Line: 01904 670820 email: info@pfmdental.co.uk

Business protection

Often a misunderstanding of partnership protection can lead to the absence of this simple but important arrangement

Whilst you are fit and well you should be more than capable of looking after the financial interests of your practice and family. However, in the event of a serious illness or death your finances and those of your family would suffer. Whilst most dentists recognise the need to have appropriate levels of family life assurance, sickness income protection and critical illness insurance benefits, many overlook the need to protect their business.

BUSINESS PROTECTION INSURANCE

Most dentists usually include the value of their practice within their financial planning for retirement or as a part of their estate for the family in the event of their death. However, few really consider the impact of their death or ill health on the value of that asset and whether it can be substantially realised in such a situation.

The reality is that the goodwill valuation of your practice will rapidly diminish in the event of your death, leaving your estate with a reducing asset value and a difficult financial burden to overcome. That is one reason why business protection insurance should be considered suitable planning for both sole proprietors and expense-sharing partners.

- **Partnership Agreements** – most expense sharers or partnerships have an agreement which determines what will happen in the event of sickness or death of one of the partners. To avoid complications and to ensure that families are properly covered the partners should consider arranging realistic levels of life assurance that would enable the surviving partners to purchase a deceased partner's share at a fair market value. Such policies are usually written in trust for the surviving partners to ensure they receive the funds to purchase a deceased partner's share in the event of their death.
- **Sole Proprietor** – quite often individuals forget that the value of their practice will rapidly diminish in the event of death and potentially leave a headache for surviving family members. We have recently seen this happen on numerous occasions where a practice which was thought to have a significant goodwill value has rapidly diminished due to the time it takes to agree a sale.

These are pertinent factors which all proprietors of dental practices should consider as a part of their business planning. If you are interested in reviewing appropriate levels of business protection insurance please contact David Leaf on 01904 670820 or email david.leaf@pfordental.co.uk.

Question your retirement planning

- Don't leave it to chance



In our experience, few dentists plan sufficiently in the years leading up to retirement. If you can confidently answer the following series of questions then you may be better informed than most dentists. However, if you do not have all the information at your fingertips then you should find out what to do next.

CAN YOU ANSWER THESE QUESTIONS?

- How important is the sale of my practice to meet my financial planning needs in retirement?
- How reliant am I on the sale of goodwill?
- How much could my practice be worth and should I rely on the sale proceeds to make up retirement provision?
- When and how should I go about selling my practice for retirement?
- How much income will I need in retirement to maintain my standard of living?
- Do I know the breakdown of how much I spend now on food and provisions, car costs, light and heat, holidays, pastimes, eating out, etc?
- Will my expenditure increase or decrease in retirement – and by how much?
- How much pension provision have I already earned?
- How much more pension provision will I accrue and how much do I need by retirement?
- Is my forecast pension income secure and is it sufficient to meet my income needs in retirement?
- What investment assets will I have in retirement?
- What income can I expect from my investments?
- How will I manage my investments to provide sustainable income and meet capital needs in retirement?
- What are appropriate investment strategies for retirement provision?
- How much tax will be deducted from my pension and investment income?
- By what process will I manage my financial planning in retirement?
- What Will provision and estate planning should I consider for retirement?
- How do I reduce my tax liabilities and make efficient provision in retirement?

THE SOLUTION – PRE-RETIREMENT CONSULTATION

Practice Financial Management recognised many years ago that many dentists struggled to answer these questions in the important years leading up to retirement. Therefore, our Pre-Retirement Consultation Service is aimed at providing the answer to these questions.

This service provides a comprehensive overhaul of your retirement financial planning ranging from practice succession and adequacy of retirement income provision through to investment and tax planning strategies.

The typical fee for a Pre-Retirement Consultation Service is £750 plus VAT. If you are interested please contact David Leaf 01904 670820 or email david.leaf@pfordental.co.uk.

📞 Advice Line: 01904 670820 ✉ email: info@pfordental.co.uk

SELLING YOUR PRACTICE

Practices are selling but the need for expert advice remains.
Paul Newsom outlines how recent changes can impact on the sales process.

Some dentists are getting pretty fed up with the change of regulations, change in NHS contracts, new legislation in respect of employment and, of course, the interpretation of the Disability Discrimination Act. This has led to some dentists throwing in the towel and selling their practices either to take retirement or to get rid of the complex issues which surround practice ownership.

These issues have not, as far as we can tell, affected the dental practice sales market other than to add extra layers of additional work for both the buyer and the seller.

For NHS practices, life gets even more complicated when trying to negotiate the sale of a practice and the assignment or transfer of an NHS contract. As PCTs do not appear to have a consistent approach to this in England, this area can sometimes become uncertain and with PCTs even acting beyond the bounds of the regulations and contract and the way they wish to proceed with the realignment of the contract to a new practice owner.

Contact our Practice Sales department on 01904 670820 or email john.fearn@pfmdental.co.uk if you are considering selling your practice.



Lunch and learn

An independent and impartial
approach to financial education
for dentists

PFM have well established education programme offering 'section 63' CPD to several Deaneries nationwide.

We are now able to offer short flexible presentations to practices covering a wide variety of topics. If you would like an **impartial and independent** insight in to any of the following subjects please contact us to arrange this complimentary service.

- ✓ NHS Pension benefits and pensioning for private fee income
- ✓ The new taxation rules for high earners
- ✓ Dental specific income protection and insurances
- ✓ Partnership or business protection
- ✓ Investment planning

Our talks can be arranged at lunchtime or out of hours and an adviser will be available afterwards to answer individual questions.

If you would like us to provide lunch we will – and yes it's free!



Practice sales market

Something to smile about

Despite what you hear in the news, banks are lending money to businesses. Unlike some sectors the dental profession continues to enjoy more than its fair share of commercial lending, both to corporates and individuals.

Despite the recession the market for dental practices is still buoyant and is significantly higher than it was four or five years ago. Prices may have effectively reached a plateau although there is no sign of any significant downward movement on overall practice values which is good news for those looking to sell, whether NHS or private.

In all market conditions a need for high quality marketing of your practice remains crucial as is PFM's experience and ability to negotiate with potential buyers.

INDEPENDENT FINANCIAL ADVISERS



The information in this newsletter is based on our understanding of law and HMRC practice as at May 2009 and is subject to change

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