

# FORTHCOMING CHALLENGES & IMPROVING INCOME

13 JUNE 2013

CHARLOTTE GARDNER





## ABOUT BDO

- Act for c.100 GP practices - we cover a large area
- We act for more practices nationally than any other firm
- Specialist Guildford medical team
- GP Practice Awards
  - 2011 Winner - Accountancy firm of the year
  - 2012 Finalist - Professional firm of the year



# MAKING IT AND KEEPING IT

- MAKING IT

- Maximising practice profits

- KEEPING IT

- Maximising profit per partner and minimising tax and other personal outgoings





## KEY AREAS

1. Contract changes
2. Tax
3. Accounts
4. Superannuation





## MAKING IT

# Key GP contract changes 2013/14

- Global sum to be increased by 1.32%
  - £64.67 to £65.52
- Similar uplift for PMS practices
- Changes to the QOF
- Introduction of 4 new & extension of 4 existing enhanced services
- Changes to vaccinations and imms for rotavirus, shingles & Men C
  
- From 2014/15:
  - Phasing out of MPIG over a 7 year period
  - PMS funding to be brought down to the GMS average level



## QOF POINTS

### Summary of changes

- Organisational domain points wholly removed
- BMA website says:
  - Amount of £167m or 15% of total QOF funding
  - Removal of £120m from QOF entirely
  - Removing £19,800 of income from the average practice

	Points
QOF points in 2012/13	1,000
Retired / changed points	<u>(216)</u>
Introduced	108
	<u>892</u>
Replacements	8
QOF points in 2013/14	<u>900</u>

## MAKING IT Changes to QOF

- £ per point increased from £133.76 per point to £ 155.16
- Intended to be cost neutral for Year 1
  - Unknown for Year 2 onwards
  - Value of the QOF points would need to increase each year
- Contractor Population Index was 5,891 in 2012/13 and prior years
- Changes made to CPI. Will reflect actual list size each year (measured in January)





## MAKING IT Changes to QOF

- Removal of end-year overlap for most indicators
  - From 15 to 12 months or
  - 27 to 24 months
  - Includes changing time period for general exceptions
- Raising upper thresholds to reflect the top ‘performing’ practices
  - 20 indicators have had thresholds raised in 2013/14
  - Remaining will be raised in 2014/15



## QOF CALCULATOR- WORKED EXAMPLE

### NB. Excludes prevalence

- Practice with 10,000 patients
  - 960 QOF points achieved for 2012/13 (96%)
  - 820 QOF points achieved for 2013/14 (91%)

**QOF payment = Points achieved x Value x List Size / Average List Size**

#### 2012/13

Value per point: £133.76

Fixed Avg. list size of 5,891

No. of points 960

$960 \times £133.76 \times 10,000 / 5,891$

Total QOF pay = £217,976

#### 2013/14

Value per point: £155.16

Avg. list size of 6,892

No. of points 820

$820 \times £155.16 \times 10,000 / 6,892$

Total QOF pay = £184,607



## ENHANCED SERVICES

### 2013/14 - New enhanced services

Four new enhanced services funded by release of organisation domain indicators. Funding to the value of £120 million.

1. Risk Profiling - £0.74p per registered patient
2. Dementia - £0.37p per registered patient
3. Remote monitoring preparation - £0.21p per registered patient
4. Online access split into 3 components:
  - Components 1&2 14p per registered patient
  - Component 3 a flat rate of £985

**GPs will have to inform their local area team by the 30 June if they are going to take up the various directed enhanced services for 2013/14**



## MAKING IT & KEEPING IT Homework

- Are all practice staff keeping accurate records?
- Look at reducing negative disease prevalence
- Do the annual patient reviews as early as possible
- Consider what criteria previously in organisational domain is now a requirement for CQC
- Get an understanding of the new QOF indicators
- Weigh up the costs versus the benefit
- Be careful before employing someone specifically to fulfill one or two aspects of QOF indicators



TAX





## INCOME TAX PLANNING

- Maximise Personal Expense Claims
  - Use of home as office
  - Computers, communications, car
  - Locum insurance etc, etc
- Gift aid carry back- last year to capture relief at 50%
- Capital recycling?
- Income between spouses
  - Can partners pay their spouses for services provided?
  - Make use of lower rate bands: bank interest/ dividends/ property income



## ENTREPRENEURS' RELIEF

- 10% Entrepreneurs' relief (ER) rate for lifetime gains of £10m
- Can not assume sale of property in a partnership will always qualify for ER
- Seek advice as early as possible as need to have qualifying criteria for 12m prior to any disposal
- If does not qualify for ER, gains probably chargeable at 28%



# NATIONAL INSURANCE CONTRIBUTIONS

## Keeping it

- Are any of your partner's undertaking employment posts?
  - Consider whether NIC refund is due?
- From 2014/15
  - Announced in budget £2,000 employment allowance introduced
  - Reduce employer's Class 1 secondary (employer's) NIC
  - Claimed through real time information
  - Legislation to be introduced later this year



## A CHANCE TO INCORPORATE?

### Keeping it

- Are your partners....
  - Completing out of hours work?
  - Doing locum work?
- Do you have....
  - other income sources within the partnership?
- Profits still taxed at 20% but, in the right circumstances an opportunity to save tax at 20%/25%
- Spouses as shareholders, dividends, possibility of company pension contributions etc....





## PROPOSED NEW PARTNERSHIP RULES - 1

- The Government has now published a formal consultation on anti-avoidance legislation for LLPs to be effective from 6 April 2014
- If a non March year end, profits for current year arrangements could be affected **\*SEEK ADVICE NOW\***
- Likely there will be issues with the concept of a fixed share partner
- Proposed that HMRC will use two tests to determine whether someone should be re-classified as an employee from a fixed share partner



# ACCOUNTS





## MAKING IT & KEEPING IT

### Accounts housekeeping

- Stock management
  - Do the clinical staff have a regard for the cost of items?
  - Make sure they are coding correctly on system
  - Get invoice from the drugs company and split out non reimbursable/ reimbursable items
  - Put a claim in each month
  - 25/30% profit margin on drugs is common
  - Can you take advantage of economies of scale?
  - One central cupboard for storage of drugs?



## MAKING IT & KEEPING IT

### Accounts housekeeping

- Energy costs
  - Be careful you don't tie in for lengthy contracts
  - Ensure you understand Year 2 and on-going costs
- Telephone costs
  - Could consider a pooled mobile practice phone
  - Cheaper for calling mobile numbers
  - Free minutes
  - Premicell
- Ring suppliers and negotiate lower costs
  - Telephone
  - Refuse



## MAKING IT & KEEPING IT

### Accounts housekeeping

- Staff pay rises
  - Rather than increase salary, consider bonus payments
  - Will keep base salary lower
  - Bonus element non superannuable
  - Will bonus be more meaningful to staff?
  - Will only have a short life
- Budgets
  - Set realistic budgets, based on previous years
  - Alter for knowns and unknowns
  - Tool for setting partnership drawings
  - Help plan ahead



## MAKING IT & KEEPING IT

### Accounts housekeeping

- Locum insurance
  - Some partners have individually
  - Will a group policy be cheaper?
  - No cost for reviewing policies
- Subscriptions
  - Have heard Scottish MDDU is cheaper than MDU and MPS
  - Believe may be for Year 1 only but at least savings for 1 year
- Notional rent
  - Don't just accept District Valuer's value
  - Challenge, some firms charge one year difference only



## MAKING IT & KEEPING IT

### Accounts housekeeping

- Salaried GP costs
  - NHS Commissioning Board pay salaried doctor's superann to the NHS Pensions Agency
  - NHCB then deduct from the statement's the salaried doctor's superannuation payment
  - Errors do happen! Do regular reconciliations
  - If salaried doctors receive pay rises inform NHCB avoid nasty surprises
- Seniority
  - Check what year NHSCB has for partner's qualifying date



## MAKING IT & KEEPING IT

### Accounts housekeeping

- A sensible depreciation policy
  - Assists with fairness and keeping things equitable
  - Should be realistic
- Benchmarking
  - Find out how well your practice is doing?
  - How does it compare with other practices?
  - Identify the reasons why costs significantly greater in some areas than other areas and take remedial action
- Detailed accounts
  - Aid decision making and superannuation planning





# SUPERANNUATION





## IN A NUTSHELL....

- Increasing amount of partners being affected by the reduction in the pensions annual allowance
- The lifetime allowance is currently £1.5m and is due to reduce to £1.25m from April 2014
- If annual allowance or lifetime allowances are breached there will be tax charges
- Are any of your doctors paying added years? Should they be?





## PROBLEMS WITH THE ANNUAL ALLOWANCE (AA)

- The amount of tax-free growth permitted each year in the value of pensions benefits
- Was £255,000, now £50,000!
- Will suffer tax at marginal rate on the excess over the AA
- There is a 3 year carried forward rule
- Will be **£40,000** from 6 April 2014



## THE 3 YEAR CARRIED FORWARD RULE

	2008/09	2009/10	2010/11	2011/12
Growth in fund	£40,000	£45,000	£50,000	£65,000
Less AA in 2011/12				(£50,000)
Excess growth				£15,000
Deemed AA	(£50,000)	(£50,000)	(£50,000)	
AA C/F	£10,000	£5,000	£0	(£15,000)
Amount of unused C/F allowance				£0

No charge for 2011/12 as the excess over AA covered by unused allowance b/f

AA= Annual Allowance  
C/F= Carried Forward  
B/F= Brought Forward



## THE NHS SCHEME - THE AA FOR PARTNERS

### Calculated by reference to 'growth'

- NHS Scheme
  - NOT based on amounts actually paid
  - Usually look at the period 1 April to 31 March
  - Plus consider other contributions to private pensions
  - Calculations based on 'career dynamised earnings'
- The opening value at start of year is increased by CPI
- Likely to exceed annual allowance in a year where CPI is high e.g. 2011/12

## ANNUAL ALLOWANCE-EFFECT OF CPI FOR PARTNERS

START OF YEAR - 1 APRIL	2011/12 Growth 5.2%	2012/13 Growth 2.2%	Rate of CPI 2010- 3.1% 2011- 5.2% 2012- 2.2%
Career dynamised earnings	£2,500,000	£2,500,000	
Amount of annual pension (CDE x 1.4%)	£35,000	£35,000	
X 19 (16 times pension plus lump sum - 1995 scheme)	£665,000	£665,000	
Uplift for annual inflation (use previous September CPI rate) 3.1% / 5.2%	£20,615	£34,580	
<b>VALUE OF FUND AT START OF YEAR</b>	<b>£685,615</b>	<b>£699,580</b>	
END OF YEAR - 31 MARCH			
Career dynamised earnings	£2,828,000 <sup>1</sup>	£2,753,000 <sup>2</sup>	<sup>1</sup> £2.5m at 6.7% (1.5% + 5.2%) plus earnings in year of £160,500
Amount of annual pension (CDE x 1.4%)	£39,592	£38,542	
<b>VALUE OF FUND AT END OF YEAR</b>	<b>£752,248</b>	<b>£732,298</b>	<sup>2</sup> £2.5m at 3.7% (1.5% + 2.2%) plus earnings in year of £160,500
Amount of annual pension x 19			
<b>Growth in fund</b>	<b>£66,633</b>	<b>£32,718</b>	

NB. Example assumes member of the 1995 Scheme





## AA OUR RESULTS FROM 2011/12

- GPs with high pensionable profits (c.£150/ £200k) were very likely to exceed the annual allowance charge in a year where CPI is high
- Most GPs with estimated pension benefits of £2m exceeded the £50k annual allowance.
- Some GPs with pension benefits of c.£1m, exceeded the annual allowance, usually when there was a spike in profits
- GPs with added years were more likely to exceed the annual allowance
- Tax charges ranged from £2,000 to £30,000 across country



## ANNUAL ALLOWANCE REPORTING- 1

- Any charge must be reported on self assessment tax return
- **PROBLEM:**
  - TR deadline for 2011/12 year was 31 January 2013
  - NHS PA expect to provide statements by October 2013 at the latest in respect of the 2011/12 tax year
  - 2012/13 at the same time
- Tax returns must be amended where the annual allowance has been exceeded and the excess is not covered by unused relief





## ANNUAL ALLOWANCE REPORTING - 2

- NHS Pensions Agency only writing to those people whose NHS growth is in excess of the annual allowance
  - Watch out for private pension contributions
  - NHS PA have no details of private arrangements
  - Could be over the AA but receive no notification

### Recommendation:

- Post 6 July 2013, request a pensions savings statement
- Request even if not currently exceeding AA
- Ask for a pensions estimate - you can do this now!



# ANNUAL ALLOWANCE PAYMENT & REPORTING

## OPTION 1:

- If the tax charge exceeds £2,000 can request the tax be paid from their NHS pension fund
- Complete and submit to NHS Pensions Agency irrevocable ‘Scheme pays notification’
  - 2011/12 - Deadline for notification - 31 December 2013
  - 2012/13 - Deadline for notification - 31 July 2015
  - 2013/14 and subsequent years - Deadline for notification is 31 July following the end of the tax year. Therefore, 31 July 2014 for 2013/14 *(one year before deadline for 2012/13?)*
- Must advise of ‘Scheme Pays’ on their self assessment tax return
- **Interest charged at 3% plus CPI**

## OPTION 2:

- Pay the tax with cash
- **Financial advice should be taken before deciding scheme pays**



## EMPLOYEE'S SA RATES 2013/14 AND 2014/15

Annual Earnings	2013/14 Rate	2014/15 Rate
Up to £15,278	5%	5%
£15,279 to £21,175	5.3%	5.6%
£21,176 to £26,557	6.8%	7.1%
£26,558 to £48,982	9.0%	9.3%
£48,983 to £69,931	11.3%	12.5%
£69,932 to £110,273	12.3%	13.5%
Above £110,274	13.3%	14.5%

### Planning

GP pensionable earnings - £110,274 - 13.3% = £14,666

GP pensionable earnings - £110,273 - 12.3% = £13,563

2013/14 & 2014/15: £1,103 higher cost for less  
than £1 additional pension





## SUPERANNUATION PLANNING - 1

- If likely to have had a AA tax charge for 2011/12, consider if likely for 2012/13
  - Potential to reduce 31 July tax payments on account
  - A need to reserve for future charges?
- Tax relief on pension contributions is based on when payments are made:
  - Try to plan the timing of balancing payments, particularly if a movement between tax rates
  - Particularly important for retiring partners



## SUPERANNUATION PLANNING- 2

- Speak to partners about their added years contributions
- Consider whether you can incorporate one of the revenue streams
- Claim all justifiable expenses
- Do partners wish to consider 24 Hour retirement
- Work less hours? ...this is becoming more common....
- Record keeping- are you working across different entities?
- Appointment income - option to be an employee for a superannuable body?

**SPEAK TO YOUR TAX ADVISER / IFA  
BEFORE ACTING**



## CHANGES ON THE HORIZON

- The NHS Pensions Agency is getting tougher!
  - Interest possibly, penalties for late payment of superannuation
  - A legal requirement to complete the certificate
- The legislation is due to be changed in October
  - Large pay increases in final years
  - Arrangements between spouses
  - Agency will honour payments but will look for employer to reimburse

# AUTO- ENROLMENT

- Who do I have to enrol?
  - Workers not already members of a work place pension scheme
  - Aged 22 and over, under state pension age, earn over PA
  - Automatically enrolled into NHS Pensions Scheme if meet criteria
  - If can not enrol into NHS, then another qualifying scheme such as NEST\*

- When?
  - Employer's have 'staging dates'
  - From March 2013, over a 5 year period

- Cost to practices:

**POTENTIAL FOR SIGNIFICANT INCREASES**

Employee's Salary	Cost to Practice
£20,000	£2,800
£30,000	£4,200
£40,000	£5,600
£50,000	£7,000

\*NEST= National Employer's Saving Trust





## AUTO- ENROLMENT

- How does an employee opt out of the scheme?
  - Form SD502 needs to be completed
  - Form SD502 given to the Employer, NOT NHS Pensions
  - Practice should not provide the employee with the form
  - Recommend in writing employee seeks IFA before acting
- For further info see:  
[http://www.nhsbsa.nhs.uk/Documents/Pensions/Auto\\_Enrolment\\_FAQs\\_Members\\_V1\\_02\\_2013.pdf](http://www.nhsbsa.nhs.uk/Documents/Pensions/Auto_Enrolment_FAQs_Members_V1_02_2013.pdf)
- **Action required:**
  - Identify practice's staging date
  - No ostriches! Forecast increase in potential costs
  - Will partners need to inject more money in for working capital?
  - Record keeping!





## CUTTING LOCUM COSTS

- Care needed - can sessions be covered within doctor base? Pay to the partner as a prior share?
- Buy adequate locum cover insurance: speak to Andrew
- Use “retired” locums
- Use an individual operating through a company
- Negotiate a lower rate



## MAKING IT & KEEPING IT Homework

- From 6 July request a Pensions Saving Statement from NHS PA
  - *If you leave me your contact details I will send proforma*
- Ask for 2011/12 and 2012/13 even if unlikely to breach AA
- Do your partners 2011/12 tax returns need amending?
- Do partners need to consider ‘protection’ from falling LTA limit?
- Can your partners benefit from superannuation planning?
- Do you need to review partner drawings?
- Will those who’ve received large pay increases be affected by AA?
- Do you / your practice need to keep records of hours worked?
- Suggest partners consider urgent review of ‘Added Years’
- Anticipate increase in employment costs following auto-enrolment



ANY QUESTIONS...?



## YOUR SPEAKER TODAY

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**National strength,  
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expertise, local  
delivery**

