



Tax Notes – The VT Year And Moving Into Self-Employment

Penny Jones - Tax Manager

Please don't be put off by the title - in these constrained times knowing how to save tax and save for tax could make an appreciable difference!

Being employed as a VT – don't forget your Expense Claims!

As a VT you can claim a tax repayment from H M Revenue & Customs (HMRC) relating to any expenses you pay for yourself e.g. subscriptions, protective clothing/uniforms, CPD courses and reference books, cleaning and laundry and so on.

You can also claim tax relief on the costs of capital equipment you have purchased e.g. loupes, a digital camera for work, etc, even whilst you are a VT employee.

Tax will be recovered at your highest rate (that is, 20%, or 40% if your taxable income for the 2009 tax year exceeds £40,835).

Note, you cannot claim a tax repayment if your Principal has borne any of these expenses or costs for you.

Becoming self-employed as an Associate

Relationship with HM Revenue & Customs (HMRC)

You must notify HMRC within 3 months from the end of the month in which you commenced trading, failing which a penalty of £100 will be imposed. So, if you commence self-employment on 1 August you must notify HMRC by 30 November. Of course, it is safer and more sensible to register as soon as possible.

National Insurance Contributions (NIC)

There are two types of national insurance liability for the self-employed -

Class 2

The current rate of contributions is £2.30 per week from 6 April 2008. The onus is on you to make the contributions. This is not payable if annual profits are less than £4,825 ... but we hope this is not the case!

Class 4

An additional tax on the self-employed whose earnings are over £5,435 per annum. Class 4 NIC is charged at 8% of profits on earnings in the band £5,435 to £40,040 per annum, and at a flat rate of 1% on profits over £40,040 per annum.

Tax rates and allowances for year ending 5 April 2009

Tax is charged at 20% on the first £34,600 of your taxable income exceeding the Personal Allowance of £6,035, and at 40% (the higher rate) thereafter. Taking Class 4 NIC into account, the higher rate of tax is effectively 41%.

HMRC penalty regime

HMRC introduced a new penalty regime from April 2008. You are required to keep hard copies of all records pertaining to your accounts for six years - this includes all of the items listed below, together with all supporting information showing how figures have been arrived at, and including letters from the NHS, your Principal, banks etc. The maximum penalty for failure to maintain the required records is currently £3,000. HMRC can levy fines in addition to this if they discover errors have also been made, even if you have just been careless in record-keeping.

Associate record-keeping

You need to keep the following records on file:

- Bank statements
- Cheque book stubs, completed in full
- Paying in books, completed in detail
- NHS schedules
- Credit card statements
- HP/Leasing arrangements
- Invoices/Receipts
- Mileage log showing business miles travelled compared to total miles travelled in the year.

You might like to use Excel, QuickBooks, etc to maintain your records. Kept correctly, computerised accounts will make it easier for you to monitor profit and manage your business.

Allowable business expenses

You can claim the following expenses provided you pay for them yourself.

Note, you cannot make a claim if your Principal has borne any of these expenses or costs for you.

- Dental materials
- Lab fees
- Superannuation
- Wages & PAYE
- Business overheads – rent, rates, light & heat etc
- Cleaning, laundry & uniforms
- Subscriptions & courses
- Accountancy & professional fees
- Printing, postage & stationery
- Equipment repairs & maintenance
- Business mileage
- Use of home as office

- 100% capital allowances on first £50,000 spent on equipment e.g. loupes, digital camera

Tax saving strategy

Get into good habits from day one! Save at least 30-35% of the amounts you receive from your Principal
Consolidate residual debt
Offset savings account(s) against your mortgage, if possible.

Dates and deadlines

Accounts

- Associate status (say) from 1 August 2008
- First year's accounts will be required to (say) 31 July 2009

NIC

- VT employment for the period 6 April to 31 July 2008 - Class 1 NIC due to 31 July 2008
- Self-employed for the period 1 August 2008 to 5 April 2009 - Class 2 and 4 NIC due from 1 August 2008
- Notify HMRC of liability to Class 2 NIC/self-employment by 30 November 2008
- Pay Class 2 NIC liability by monthly direct debit from 1 August 2008

Tax

- The 2008/09 tax year runs from 6 April 2008 to 5 April 2009
- HMRC calculating your tax liability? Tax return to be filed by 31 October 2009.
- Calculating your own liability? Tax return to be filed by 31 January 2010.

Payment of tax

Under self-assessment, you are required to make payments on account of the tax liability for the following tax year as well as settling any balance owing for the current tax year. Payments on account are calculated as 50% of the previous year's tax liability.

In your first period of trading as an Associate you will not have made a payment on account of the tax liability; this means you are likely to incur a large tax bill on the 31 January following your first period of trading as an Associate.

For example, if your tax liability for 2009 is calculated at £14,000, you will need to make the following payments:

DentalBusinessSolutions

Network House, Station Yard,
Thame, Oxon, OX9 3UH

Tel: 01844 260111

Fax: 01844 214111

Email: info@dbs.org.uk

Website: www.dbs.org.uk



THE ASSOCIATE



31 January 2010

Balancing payment of Income Tax for 2009 tax year £14,000
Plus first payment on account for 2010 tax year £7,000 (50% of 2009 tax liability)
Payment due by 31 January 2010 £21,000

31 July 2010

Second payment on account for 2010 tax year £7,000 (50% of 2009 tax liability)

Tax cash flows following the end of your second period of trading as an Associate depend largely upon how profitable a year you have had.

Imagine your tax liability for 2010 is £18,000; you will need to make the following payments :

31 January 2011

Income Tax for 2010 tax year £18,000
Less payments on account made Jan and Jul 2010 (£14,000) (7,000 + 7,000)
Plus first payment on account for 2011 tax year £9,000 (50% of 2010 tax liability)
Payment due by 31 January 2011 £13,000

31 July 2011

Second payment on account for 2011 tax year £9,000 (50% of 2010 tax liability)

What happens if you don't pay the tax on time?

HMRC will make a 5% surcharge if balance of liability due on 31 January is unpaid by 28 February. Interest is charged on late paid tax at a daily rate based upon 3.5% per annum. Interest and penalties are always enforced.

Your tax return form

Your annual tax return form is used to declare to HMRC (taxable) income and reliefs for 6 April to next 5 April. Once you begin self employment, you will be required to file a tax return form each year (you may be filing annual tax return forms already if, for example, you are letting rental properties).

Taxable income includes:

- Employment income
- Income from self-employment
- Rental income
- Bank and building society interest received
- Dividends received
- Capital gains

Reliefs include:

- Pension contributions
- Charitable donations made under gift aid
- VCT/EIS investments

Tax investigation

Each year HMRC looks into the tax affairs of a number of individuals in greater depth. This can become an expensive business, so we would strongly recommend you insure against a Tax investigation.



Calling All Dental Associates – Are You Properly Paid?

Nick Stewart ACA, FCCA.

Although aimed at dental associates there may well be points of interest in this article for dental principals also.

On the face of it, the standard associate's pay calculation is relatively straightforward: the sum of patients' fees earned less related laboratory fees are multiplied by a fixed percentage, which has commonly been 50% in the past, but more variable in the current market place, from which is deducted the associate's NHS superannuation, and any other, usually, one-off adjustments to arrive at the amount due for a particular month.

However, in practice there are a number of reasons why this calculation may be incorrect and the associate has been paid the wrong amount. Firstly, the associate's pay is either calculated manually or with the aid of a computer spreadsheet. Manual calculations tend to give rise to comparatively more errors: arithmetic errors are quite common as are figures being misread, often due to unclear handwriting, and therefore even if the arithmetic is correct the end result is not.

Computer spreadsheets give the impression

of being correct but sometimes this is far from the case. Incorrect formulae, often caused by insertion or deletion of a line, and data entry errors can both lead to the wrong result. So, even if the associate's pay has been calculated using a spreadsheet and it is clearly presented doesn't necessarily mean that it is correct and it is a good idea to check the calculations.

The data used for the calculations obviously has a bearing on the associate's pay; the old maxim "rubbish in – rubbish out" certainly applies! Patients' fees earned will comprise NHS, private and payment scheme income e.g. Denplan although not all elements will necessarily be applicable. But, where is the largest, and probably most important, figure in the calculation taken from? In a practice that uses clinical software such as Software of Excellence then it should be a simple matter of preparing a monthly report of the associate's patients' fees but in a practice that hasn't yet embraced computerization then manual record books are probably maintained. The latter case brings us back to the same points made earlier in this article about manual calculations. As an associate, you may want to travel further back down the trail and review or check the actual patients' fees that have been allocated to you.

Lab fees are usually the next item in the calculation. Again, have these been correctly identified, and entered, from the practice's financial records? A copy of the relevant

lab bills could be attached to the monthly associate's pay calculations for support. Next, the total of patients' fees less lab bills is multiplied by a fixed percentage although where a sliding scale is in place a check should be made to ensure that the correct percentages have been used and applied. The associate's NHS superannuation can be taken from the relevant NHS pay statement, although these days with the new contract and schedule layout it is not always as easy as it was to pick up the correct figure. I have seen the odd case where the total superannuation is deducted before the 50% of patients' fees less lab bills is calculated. Where an associate is being paid based on the number of UDAs achieved, as opposed to their share of the contract value, the superannuation figure used in the associate's pay calculation should reflect this.

Any discrepancies in the monthly calculation should be highlighted as soon as possible and resolved to both parties satisfaction – if significant time has elapsed before errors are noticed then it may be too late to put them right.

One final point. A Contract of Services signed by both principal and associate is essential to ensure that both parties are crystal-clear about the basis of remuneration. Apart from the other key conditions it is essential that remuneration for valuable professional service is based on a clear written agreement – a conversation and a handshake does not suffice.