



I Can't Afford My Income Tax Bill!

Harry Winter Tax Partner



Dentists – if you'll pardon the expression – are as vulnerable to damage inflicted by the credit 'crunch' as anybody else. Even NHS patients have to find their share of the costs and when things get tight maybe some may come to regard dentist's fees as an expense worth avoiding. No patients means no profits, and no profits means no paydays. On the up side you might also think that no paydays means no income tax, but it isn't as simple as that.

Self employed people (and that includes most dentists) are charged to income tax on the basis of the profits shown by their business accounts. These accounts – usually covering the period of a year – may end on any day within the tax year. So for instance if your usual accounting year end was 31st March 2008 then these accounts would have formed the basis of the income tax self assessment for the 2007/08 tax year. So far, so obvious. The problem however in the present downturn can arise if you have an accounting year ended 30th April 2007 – which also forms the basis of the 2007/08 self assessment and the initial calculation of the payments on account for 2008/09. In this case your profits were earned almost a year before they are assessed to income tax and you may end up paying the tax charged on the profits of a good year at a time when earnings have fallen due to the recession. The result for your cash flow is bye bye you and Hello Darling.

So what's to be done? There are two possible courses –

- Self employed Income Tax is paid in three installments; two payments on account (in January and July) and if necessary a balancing payment (in the following January). In the first instance the payments on account are calculated with reference to the tax paid in the previous year. If your profits have fallen (so that it becomes obvious that the payments on account are too large) then it is possible to apply for postponement of an appropriate portion of this tax. Care needs to be taken however as if part of the postponed tax ultimately proves payable then you will be charged to interest from the normal due date for payment. Interest is currently charged at the rate of 3.5% per annum and the rate is varied according to prevailing bank rates,
- As from 24th November 2008 the Revenue has introduced a new, dedicated Business Support Service designed to meet the needs of businesses affected by the current economic conditions. If you are worried about being able to meet income (or other) tax liabilities a schedule of payments can be negotiated. You will still be charged interest on the effective late payments but if you stick to the agreed schedule (a) you will not be subject to pressure (including the threat of legal action) to make the payments earlier and (b) the Revenue will not impose the usual 5% surcharges where tax for the previous year remains unpaid by 28th February and 31st July following the normal due date for the balancing payment.

The above may be important to you. If you need more detailed advice please don't hesitate to contact me by any means at your disposal..

DentalBusinessSolutions



Welcome to the Spring edition of DBS Spotlight. You will notice, I hope, a new fresh look and a new innovation. Historically Spotlight has tended to focus on issues of particular interest to practice Principals and as a result were of limited interest to our Associate clients. To rectify matters you will find a middle section dedicated to issues which impact particularly on Associates. I hope this will also be read by Principals who might learn a thing or two.

I am acutely aware that in these unusual economic times we all need as much useful help and advice as we can get, preferably as cheaply as possible. We have set out to achieve this in this issue of Spotlight, I hope we have succeeded.

There is an article by Daz Singh who has just set up a stunning new practice Ollie and Darsh, with his business partner Sudarsh Naidoo. They have demonstrated how a practice & with an intelligent proactive approach and committed team can still achieve great things even in the current climate. Lots of ideas for you there. Peter Cadenhead and Mike Cresswell of Emery Little Cresswell Cadenhead LLP, Independent Financial Advisors with whom Dental Business Solutions has a special relationship, offer some end of year advice, there is still time to act.

Finally Nick Stewart and Penny Jones offer some sound advice for Associates and VT's, Principals take special note.

I hope you enjoy the read, if so let me know, if not, OK let me know anyway.

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INFORMATION UPDATES

Welcome to Ollie & Darsh, Where Individual Smiles Matter

Daz Singh BDS

A phrase and an ethos formulated in the minds of two business partners and former associate colleagues, Dr. Sudarsh Naidoo and Dr. Daz Singh who together with their business manager treatment co-ordinator/concierge Suzy Gorman formulated the idea to provide a classy, profitable, private dental clinic that provided a high level of service based firmly on prevention in Liverpool City Centre.

The idea came to fruition through the aid of Michael Smith and the team at Dental Business Solutions who helped provide the knowledge and an invaluable guide in assuring this new practice would lift off the ground and achieve its strategic targets.

Ollie & Darsh opened in November 2008 in Liverpool City Centre determined to focus unswervingly on the ideals it had set out to accomplish. Prior to opening a strong instantly recognisable brand was created and a brand awareness campaign was launched to intrigue local commuters and local businesses. A new business was being born, but we made no mention that this was a dental clinic and placed our striking logo with our strap line on turnstiles at our local train station. Having created a stir of interest in the business, the website was launched soon after the initial advertising campaign with the help of Toad Images. The campaign led to a multitude of hits on the website.

The practice was launched as a private squat with zero members on day one, in a period of huge economic uncertainty, but the practice has thrived in the opening few months with a raft of new memberships using a Smilecare plan branded as our own membership scheme.

The most successful campaign has been one launched in January. As both clinicians are trained in Invisalign the clinic decided to host an open evening towards the end of January, planned to coincide with most potential patient's pay day. The planning for this was launched in December and through a multitude of staged and stepped advertising we promoted the day through, visual advertising, leaflet drops, internal marketing and also specified secured radio slot advertising. The initial idea started as an open evening, and was aiming to attract

a few people, however, two weeks before the open day we had eight people who were interested in having Invisalign treatment, the week before this grew to fourteen, by the time the day had arrived we were still taking bookings... to fill out another day!.

Our first day was completely filled and the marketing was such a success that this expanded to fill another day; two days from 8am till 9pm. By the end of the second open day there were 45 completed Invisalign treatment plans all of which were converted to accepted courses of treatment. A huge credit goes to Suzy; her role as the concierge, treatment coordinator and business manager of the practice led to her being responsible for initially taking telephone consultations and converting them to firm bookings for the open day.

On the day Suzy was responsible for explaining the treatment to the interested guests and converting the initial enquiry to a clinical consultation with either Daz or Sudarsh. She then took an initial deposit and subsequently, once treatment was approved, the final payment. Almost 20% of patients opted for our Direct Dental Finance option enabling us to offer them Interest Free Credit. One person fulfilling a multitude of duties and explaining the same thing over and over again in itself, was worthy of a medal. The nurses Melissa and Shanie were outstanding in their clinical capacity and helped to ensure the clinical side went without a glitch even though the clinic ran through their entire stock of Provil!

The first day however did not go all completely to plan, because a certain dentist (DS) forgot to bring the battery charger for the camera, the clinical camera duly obliged by running out of power before lunch. With only a third of the day gone a quick trip to John Lewis and £110 later a new camera was had.

In this time of economic uncertainty, the success of these two days was unbelievable. The clinic was not anticipating such an incredible outcome, especially on two dark January days. This success can be explained by our proactive approach and by the incredible team at Ollie & Darsh. With anticipated excitement we look forward to what future these uncertain times may bring.



Changes to the National Minimum Wage Rates

From 1st October 2008 the national minimum wage rates will be:

Ages 22+	£5.73
18-21 year olds	£4.77
16-17 year olds	£3.53

Please ensure that your employees are being paid in accordance with the minimum wage requirements as HM Revenue and Customs has the right to review your payroll records and it is considered a criminal offence to 'refuse or wilfully neglect to pay the NMW'. If you fail to pay the NMW you will be ordered to pay any backdated monies considered to be due to your employee(s).

If you have any queries on the above please do not hesitate to contact us.

INFORMATION UPDATES



Year End Investment Planning

In terms of investment opportunities and planning for the end of the tax year, we would like to offer the following thoughts: -

Investment Savings Accounts – ISAs

Don't forget the deadline for this year, as once the allowance has gone, it cannot be recovered in the future. Although interest rates are low now, this may not be the case forever!

The ISA rules changed on 6th April 2008 and the annual allowance increased from £7,000 per investor to £7,200. Of this, up to £3,600 can be invested in a Cash ISA.

Up to £7,200 can be invested in a Stocks & Shares (Investment) ISA; or the balance up to this limit if you have already invested in a Cash ISA.

If you have not used your allowances yet and you have capital in deposit accounts, you should consider doing so. Even if interest rates are low, for a higher rate taxpayer, if you do nothing else, you can shelter interest from income tax by depositing £3,600 in a Cash ISA.

If you are seeking income, an Investment ISA may be worth considering and to follow our recent theme, yields from Corporate Bonds are currently very attractive.

You can also shelter investment capital into an ISA and use the 'Cash Park' facility to defer the decision to invest in active funds. If you are concerned about the short-term stock market volatility, you can invest the full £7,200 in an ISA and leave the funds in a 'cash' account; pending an investment decision at a later date.

It is also possible to 'phase' the investment over a period of months, to obtain the benefit of 'pound-cost averaging', i.e. spreading your investment into active funds in the same way as paying a monthly contribution.

The ISA year begins again on 6th April 2009, for the 2009/10 tax year and whether you are considering Cash ISAs or Investment ISAs (or a combination of the two); you might have sufficient available deposit cash to make a 'back-to-back' investment either side of the

tax year end. This would certainly maximise any tax-free interest or investment income for the new tax year.

Existing Cash-ISAs

You may have built up a significant holding in Cash ISAs already, which will now include previous TESSAs, which became Tessa-Only ISAs (TOISAs). Under the new rules, effective from 6th April 2008, it is possible to transfer from Cash ISAs to Investment ISAs, importantly, retaining the tax-efficient status of the investment.

With interest rates reducing and returns on cash being squeezed, this may have an impact if you are using the interest from Cash ISAs as income, or if it is a secondary cash reserve and you are seeking a potentially superior return. Again, you could transfer Cash ISAs to investment funds and consider Equity Income funds or again, consider good quality Corporate Bond funds. This will significantly improve the income yield from this part of your portfolio, albeit with an increase in the level of investment risk. It is also important to remember that like interest rates, income from corporate bond funds and equity income can vary.

Premium Bonds

There are substantial amounts of capital held in Premium Bonds and it is generally accepted that people invest for three reasons; 100% security of capital, tax free returns and the hope of winning £1 million!

The prize fund on Premium Bonds has dropped to 1.8% and if you have held Premium Bonds for a significant time, it may be worth calculating the return that you have achieved. It is always worth considering the alternatives.

Inheritance Tax Planning (IHT)

The end of the tax year is not necessarily significant to will-planning, but we would like to take the opportunity to remind you that your will is one of the most important documents that you will ever draw up.

If you have a will, make sure you keep it up-to-date. If you don't have a will, make one!

One aspect of inheritance planning that should not be forgotten is the annual inheritance tax exemption, allowing you to make a gift of £3,000 per tax year, exempt from IHT. Although not a substantial amount in itself, using this exemption each year will add up over time. You will probably have some grateful children/beneficiaries as well.

Pension Planning

Investing in a pension scheme, whether a company or a personal scheme, allows you to enjoy significant tax breaks on your pension savings. These are tax reliefs as you invest and a partially tax-free investment regime for your pension savings. Your employer can also contribute and obtain tax relief on contributions, if appropriate.

Pension contributions based on 2008/09 earnings must be paid by 5th April 2009. If you are a higher-rate tax payer, this could be especially advantageous now. There are annual limits; the maximum investment is an amount equal to your gross earnings or the annual allowance (£235,000 in 2008/09), whichever is the smaller.

You may have an active or deferred pension benefit accruing in the NHS Scheme, which needs to be taken into account, as the personal contribution counts towards the overall contribution limit. It is also sensible to take the time to review this at a later date; to look at the projected NHS Scheme pension, as part of your overall future retirement income.

But, should you invest when investment markets are volatile and uncertain? We have already mentioned the importance of longer-term investment decisions and it may be perceived that for long-term investment, markets are cheap compared to a year ago.

Tax relief is an attractive way of increasing the effective amount of the investment and the only major drawback is loss of liquidity – you cannot access the capital until you draw retirement benefit and even then, only one-quarter of the fund.

Not with standing that point, now may be a good time to boost your retirement funds. You can also invest up to £3,600 per annum gross (£2,880 net of basic rate tax) without reference to earnings, so even a non-taxpayer

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Year End Investment Planning continued...

can build up a pension in his or her own right and benefit from tax relief.

There is the opportunity to make significant tax savings by paying a contribution before the end of the tax year, especially if you are expecting a huge tax bill and have some capital available for longer-term investment. The attraction of tax relief at 40% is a compelling reason to consider pension contributions.

Other Opportunities – Tax Shelters

There are other tax shelters available, such as Venture Capital Trusts (VCT) and Enterprise Investment Schemes (EIS), which offer income tax relief and capital gains tax advantages. In the case of EISs, there are additional Inheritance Tax planning advantages. These are more bespoke and generally, higher than average risk investments and you should contact us if you would like more information.

Conclusion

Don't forget ISAs this year. Although the investment climate may not seem attractive, it is never wise to lose a tax-saving opportunity without due consideration.

The opportunity to use the full ISA allowance and to invest in cash pending an investment decision is very valuable. The indications are that tax revenue will need to be increased in the future and protecting your assets from future tax is important.

Cash ISAs will ensure that capital is protected in the future if interest rates go back to their former levels, which cannot be discounted.

Income is being squeezed by low interest rates, so tax-free or tax-advantageous income from ISAs continues to offer value to individual investors.

Finally, pension planning is always relevant and never more so than now; the attraction of higher rate tax relief now is a valuable way of increasing your retirement 'pot' or perhaps, bringing retirement a little closer.

If you would like any further information or advice from Mike Cresswell or Peter Cadenhead of ELCC, please contact us at the office.

Increases In Paid Statutory Holiday

As from 1st April 2009 the statutory paid holidays for full time workers increases to 5.6 weeks (28 days) which may include bank and public holidays. Therefore if your contract already allows for 20 days plus bank and public holidays, no increase is necessary.

Part time workers' holiday is calculated on a pro-rata basis which again can include public and bank holidays but these need to be accounted for at the beginning of the holiday year.

All statutory holidays must be used within the holiday year, or they are lost.

Payment in lieu of statutory holiday is not permissible but if your contract allows for more than the statutory amount, payment can be made on the additional 'contractual holidays'.

Employees who are on statutory leave, continue to accrue paid holidays. Employees who intend to take Statutory Maternity leave may need to delay the start of maternity leave to use up their annual leave. The employee and employer will need to discuss using up the annual leave as an early birth could shorten the leave the employee is entitled to take.

THE FUTURE OF YOUR PRACTICE



IS IN WHOSE HANDS?

Some of you may well have seen the new face of Dental Business Solutions at The Dentistry Show. She is part of a marketing campaign emphasising the particular importance of clear, reliable professional support in these interesting times. This is no time for relying on advice from a crystal ball or indeed from a mate who can do you a cheap website or design you a logo for a fiver.

Practices that invest wisely now and who are proactive in their patient handling are the ones who will survive this crisis. Dental Business Solutions with its 30 years experience of working solely with the profession is in the ideal position to help. *Dental Business Solutions... a safe pair of hands.*

No she is not a current DBS employee!

Are you planning to purchase a car within the next few months?

If you are, the date you make your purchase could significantly affect your tax bill, so careful planning is needed.

Under the new rules introduced from 6th April 2009, capital allowances for cars will depend solely on Carbon Dioxide (CO₂) emission levels. The rates are as follows:

- 1) Cars with emission levels up to 110g/km will attract First Year Allowances (FYA) up to 100%*.
- 2) Cars with emission levels in the range 110g/km to 160g/km will attract Writing Down Allowances (WDA) up to 20%*.
- 3) Cars with emission levels in excess of 160g/km will only attract WDA up to 10%*.

* If you are self employed these rates will be restricted to allow for non business use of the vehicle.

So the emission rate of the car will determine whether it is beneficial in tax terms to buy now, or wait until after 5th April 2009 to make your purchase.

The general situation is as follows:

- 1) If the CO₂ emissions of the car you plan to purchase are less than 110g/km, then FYA of 100% will be available whether you buy before or after 5th April 2009. So, unless your next year end accounting date is either 31st March 2009 or 5th April 2009, there is no significant benefit in rushing to make your purchase before 5th April 2009.
- 2) If the CO₂ emissions of the car you plan to purchase are above 110g/km but below 160g/km, then generally it will only be advantageous to make the purchase on or before 5th April 2009 if the cost of the car is less than £25,000. If the purchase price exceeds £25,000 then it will probably be beneficial in tax terms to delay the purchase until after 5th April 2009.
- 3) If the CO₂ emissions of the car you plan to purchase are above 160g/km, then generally it will only be advantageous to make the purchase on or before 5th April 2009 if the cost of the car is less than £45,000. If the purchase price exceeds £45,000 then it will probably be beneficial in tax terms to delay the purchase until after 5th April 2009.

Information on CO₂ emissions for different car models can be found at: www.direct.gov.uk/actonCO2

So if you are planning to make a car purchase within the next few weeks, then please contact the tax department with the details and we can advise you further.