



Happy New (Tax) Year

It is a certainty that by the time you read this edition of our quarterly newsletter we will have endured the content of the last Budget of this present Government and also be aware as to when the 2010 General Election Polling Day will be.

Irrespective of who wins the battle for Parliament, the United Kingdom, its economy and all of its people will be challenged by the prevailing economic conditions and the restoration of the Public Finances.

As I write it has just been announced that NHS dental pay is effectively frozen, so no surprise there then. This pay freeze then takes us through to April 2011 which is the next significant date in the calendar as far as Government funding of dentistry is concerned.

I believe that the concept of ring fencing certain elements of NHS spending will be abandoned whoever takes power; I further believe that the focus of certain PCTs and their desire and power to redistribute current spending will be enhanced.

A more imminent challenge is the already announced tax regime being introduced with effect from 6th April 2010. I confess that I am old enough to remember when Margaret Thatcher took power in 1979 the highest rate of UK income tax was 98% - that is not a misprint it really was 98%. Over time the top rate was reduced to 60% and then 40% and this reduced top rate has sustained for a considerable period of time but is now deemed to die in the very, very near future. The Conservatives have already advised that they are in no hurry to reverse the 50% rate so that is more than a tad disappointing is it not? No comment has yet been made as to whether the spike rate of 61% on earnings between £100,000 and £113,000 will be withdrawn, but realistically my advice is do not hold your breath.

The realpolitik of the next Government is that Government spending will be

squeezed very significantly in the medium term but when the squeeze starts is a matter of some debate. In addition there will be significant increases in tax. My key predictions are:

- The Standard Rate of VAT uplifted to 20% and perhaps beyond.
- The mainstream rate of Capital Gains Tax will increase significantly, perhaps to 35% (the current rate being 18%)
- In due course the Government will find a way that all tax payers including those on Basic Rate pay more Income Tax than is presently the case.

Alongside many other professional firms we have to focus on the legitimate mitigation of the already announced penal rates of taxation. Those who know me well understand that I do believe that providing high quality primary healthcare is exacting enough without the fruits of your labour being over taxed.

The general consensus is that it will take more than one Parliament to sort out the mess that we are in: that is a macro economic issue. The micro economic reality is your own professional activity, the rewards that you wish to sustain and the effective planning and management of your tax affairs to achieve an equitable result. The actual top rate of tax on earnings in excess of £150,000 is scheduled to be 51% for 2010/11 and 52% for 2011/12 onwards.

If we were to substitute the word confiscation for the Government term of taxation, more taxpayers would reflect on the politics of Government tax policy rather than the economic sensibility thereof. The sensible structure of your financial affairs to reduce the impact of the rates stated above is more essential now than ever before.

I wish all of you a Happy New (Tax) Year.



George Manolescuc

DentalBusinessSolutions

In this issue George Manolescuc delves into the joys awaiting us all in the New Tax year and there are some useful tips in respect of tax planning generally.

There is specific advice in respect of the current reluctance of HMRC to repay overpaid tax.

Kelly Webster highlights Direct Dental Finance and how this can benefit your professional activity and the profitability of your practice.

The weather disruption over winter is now well behind us so our wishes are for a rewarding and highly enjoyable summer.

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INFORMATION UPDATES



General Tax Planning

You may need to refer to your accountant or tax adviser in respect of some of these points, but they are useful observations. It should be noted that the tax treatment of married couples (and references thereto) also applies to same sex couples that have entered a civil partnership under the Civil Partnership Act.

Income Tax

Splitting income - a review of the split of income between spouses may yield tax savings such as reducing or even eliminating higher rate tax liabilities. An unconditional and outright transfer of the underlying asset would be effective to allow a redistribution of the income.

Jointly-owned assets - income arising from assets owned jointly is deemed to be owned '50:50' and taxed accordingly. An election can be made to HMRC on a Form 17 to state that the asset is owned in unequal shares and it will then be taxed in the same proportion; however, the election must be made before the income arises. Consider such a declaration especially when a new asset is acquired.

Earnings - Income tax savings can also be made if you are self-employed, by employing your spouse or taking them into the partnership as a partner.

Alternatively, a spouse could be employed (and a shareholder) in a private limited company. However, it is important that the level of remuneration can be justified and wages are actually paid to the spouse.

Tax Alert - As noted, a massive change to the income tax rules from 6th April 2010 is the reduction of the Personal Allowance (PA) for those earning over £100,000. The reduction of the PA on a £1 for every £2 earned over this limit means that once income reaches £112,950, the PA is completely lost and it is equivalent to a marginal income tax rate of 60% on this 'slice'.

Planning becomes increasingly important, not forgetting of course, that in the face of a General Election, the 50% income tax rate starts on 6th April 2010!

Capital Gains Tax

Every individual has an annual exemption for Capital Gains Tax (CGT) purposes. In the tax year 2009/10, this is £10,100. It is important to review your chargeable assets and consider selling assets before 6th April

2010 to utilise the exemption. This may be particularly pertinent if you have large holdings of individual shares.

Key tax tip - Husband and wife each have an annual exemption. Transferring assets between them may mean that they can use both allowances to make tax free gains of £10,100.

'Bed and Breakfasting (sale and repurchase overnight) of the same class of shares is no longer tax effective. But, sale by one spouse and repurchase by the other, or sale outside an ISA and repurchase inside an ISA can achieve the same effect.

CGT has changed fundamentally in the last couple of years, with the abolition of indexation and taper relief, but for higher rate taxpayers especially, a flat rate of CGT at 18% may be favourable.

Pension Planning - Care!

There may be opportunities for pension planning, but the rules can be complex in certain circumstances.

The Government has introduced significant changes to the tax relief available on pension contributions, which come into force in the 2011/12 tax year. Prior to 2011/12, the 'anti-forestalling' provisions included in the Finance Act 2009 and extended in the Pre-Budget Report in December 2009 mean that the legislation is, in effect, in place immediately.

Individuals whose income is below £130,000, before the addition of employer contributions, will not suffer restricted tax relief.

For those earning in excess of £150,000 this tax year (or in the previous three tax years) a 'special allowance' of £20,000 will apply, which is effectively the amount that can be paid and full 40% tax relief be granted. For high earners, this has now become quite complex and we, as always, would be delighted to discuss the finer details with you. For those earning less than £130,000, it is still possible to pay significant pension contributions up to this amount and secure tax relief.

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.

In terms of pre-planning for the new tax year, if you have taxable income at 50%, then VCT relief at 30% may be an attractive proposition.

Conclusion

A few things to think about and here are some important reminders: -

- Don't forget ISAs this year. Although the investment climate may still be a little uncertain, it is never wise to lose a tax-saving opportunity without due consideration.
- 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.
- Even with restrictions, maximising pension tax relief is crucial.
- Consider your overall situation, to maximise Income Tax and CGT savings.

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INFORMATION UPDATES

HM Revenue & Customs keep overpayments

It has been brought to our attention that overpayments of tax will now be withheld until you (or we, on your behalf) phone HMRC to request a cheque refund, in cases where your bank details have not been provided in order for a direct credit to be made into your bank account.

One assumes this policy is intended to encourage taxpayers to request direct bank repayments, however until you are comfortable releasing your bank details to HMRC don't let this sway you!

Whilst it is not happening across the board yet, we have noticed increasing incidence of HMRC withholding overpayments. We would be grateful for your help in notifying us by phone or email if a refund you are expecting does not arrive, so that we can do our utmost to ensure the money is refunded to you at the earliest opportunity.

Direct Dental Finance

Progressive and modern practices need all of the tools and skills they can acquire to develop practice income and maximise profits: offering patient credit facilities is an excellent method of doing this.

Presenting your patients with interest-free and low interest loans is an ideal opportunity to make more expensive, high-end treatments possible for those who otherwise would not consider the option of costly treatment. Offering finance is an excellent marketing tool for attracting new patients who would not be able to afford their treatment otherwise.

Whilst your patients have the comfort of easy to manage monthly instalments, you will be paid in full, up-front, giving predictable cash flow.

Interest taxed at source

Did you know that banks, building societies and other deposit holders are required to report annually to HMRC details of interest paid out to customers?

Many of you are higher rate tax payers and, in order that HMRC can collect the additional 20% tax due on interest already received net of 20% tax, you need to report all interest receipts on your annual tax return form (remember to let us know if the interest is received on an account held jointly with someone else). Banks and building societies do not have the facility to deduct higher rate tax from you.

Note, after 5 April 2010 the tax payable by higher rate tax payers with taxable income over £150,000 is set to rise to 50%, so the additional tax due increases to 30%.

Direct Dental Finance can help you achieve this. We have a strong relationship with Hitachi Capital Consumer Finance and offer practices a variety of finance packages on interest free and interest-bearing loans at competitive rates, together with excellent, ongoing support.

Applications are made online through Creditmaster2 and take literally minutes: no need for time-consuming form filling and telephoning for a decision, although this manual application process can still be dealt with by us. Some applications can be accepted immediately and once the application has been accepted the patient can commence treatment as soon as is convenient and you will receive payment via BACS into your bank account approximately three days later.

HMRC enquiry window abuses

For tax returns submitted after 6 April 2008, HMRC has exactly one year from the date the tax return is submitted to enquire into its contents, so for a tax return submitted on 30 September 2008 the enquiry window closes on 30 September 2009.

We are aware of one or two cases recently where this window has been exceeded and caution you not to be tempted to respond to HMRC requests for information without referring to us first!

We do offer a tax investigation service to assist in the event of an enquiry and if you do not already subscribe to this service but wish to do so please contact Judith Carrington for more details.

Direct Dental Finance is dedicated to making finance a success in your practice. We can provide training for all of your staff, ongoing telephone support and literature for your practice. We will suggest effective ways of presenting finance to your patients to maximise every opportunity whilst remaining cost-effective for your practice.

For more information contact Kelly Webster on 01844 260111 or alternatively email info@directdentalfinance.com and see how we can help you improve your practice income.



Penalties for late payment of your PAYE liabilities

New penalties are to apply for employers who do not pay on time and in full as from May 2010. Employers should not expect the usual written reminders - in many cases HMRC will send a letter the first time and penalties may be applied the following time a payment is received late. New bank details for HMRC have been circulated as follows:

Payment Office	Sort code	Account Number	Account name
Cumbernauld	08 32 10	12001039	HMRC Cumbernauld
ShIPLEY	08 32 10	12001020	HMRC ShIPLEY

All payments should carry your Accounts Office reference followed by the tax year and the month to ensure payments are allocated to your account accurately. HMRC do not automatically apply them to the next available month.

e.g.: 123AB00123456 11/01 this would be applied to Month 1 of the new tax year.

Alternatively employers can set up a Direct Debit by going to www.hmrc.gov.uk

Select PAYE for Employers from the do it online menu, log on to the Welcome to Online services page and select 'Direct Debit' payment from the main menu

Whereas monthly PAYE liabilities are due for payment by 19th of the following month, if the payment is sent by BACS, Online banking or by DD the payment needs to reach HMRC by 22nd of the month.