Four ways to cut your tax bill

25 September 2012

Nick Holmes offers some advice to GPs who regularly pay too much tax

GPs are working longer and harder than ever before but for less income. Tax allowances have been cut and tax and superannuation rates have increased. Without careful management your take-home pay could be on a downward spiral.

Whether you improve your record-keeping, change your business structure or just ask your spouse to drive you to appointments, some simple changes can make a big difference to your tax position. I believe most GPs could save at least £1,200 tax each year, which can only make things better during a time when everyone is feeling the pinch.

Help is at hand, though, with the following advice on how to side-step some common GP tax traps:

**Tax trap 1: under-claiming expenses**

I have lost count of the number of times I have told a GP to claim personal expenses. Most claim a fair and reasonable amount, but some either forget the basics, or view expenses claims as being far too time consuming. But if you have incurred the cost already, why not claim it? Remember that for every £100 claimed you are saving over £40 in tax.

**What to do:** If you struggle to keep records, keep your receipts in a single envelope and pass it to your accountant. Alternatively, pay your spouse or a bookkeeper a market rate to keep the records for you each month. Claim your car costs based on the percentage business use. It is essential to keep a mileage log, though. Without this you have no claim. Medical equipment, books and journals can all be claimed, not forgetting your satellite navigation system for finding patients’ houses and the iPad if you use it for work. Remember that claims should be proportionate to the amount you use the item in question for work.

**Average annual saving available:** £400 to £2,000

**Tax trap 2: losing tax relief on pension contributions**

GP partners pay superannuation shortfalls up to two years after they receive their pensionable income. Locums make superannuation payments up to three months after they are paid and salaried GPs may underpay because of an incorrect banding. By making a payment in a following tax year the tax relief is effectively lost by up to a year. This means that your tax payments are higher than they should be, which can have a detrimental effect on practice or personal cash flow.
What to do: With six different superannuation bandings, all GPs, whether partners, locums or salaried, must ensure that they are in the correct banding and make any underpayment of superannuation prior to 5 April of each tax year.

If not paid by this date then, following submission of the relevant pension form, any shortfall will be deducted or paid within the following few months. For every £1,000 paid before 5 April 2012 your 31 January 2013 tax bill will be up to £500 lower. If paid a day later on 6 April 2012, the tax relief may not be achievable until 31 January 2014. The timings are complicated but your accountant should help you meet the deadlines.

Average annual saving: £0 - £5,000

Tax trap 3: paying up to 60% tax instead of 40%

If you currently earn between £100,000 and £116,210 of taxable income, you lose a proportion of your personal tax allowance, which means you effectively pay up to 60% of your income in tax. If you earn more than £116,210, then you lose your entire personal tax allowance of £8,105, which costs you approximately £3,500 each year. If you earn more than £150,000 you also pay tax at 50% instead of 40%, costing you an extra £1,000 more in tax for every £10,000 in earnings.

What to do: The easiest way to avoid this is to look at the expenses you are claiming and the structure of your business. Could you employ your spouse for any work – either personally or at the practice? Could your spouse work with you as a fellow partner or co-director/shareholder? Do you have any equity that could attract tax relief when comparing the building cost to the current debt value?

Through some basic tax planning you can improve your tax position while making use of your spouse's personal tax allowance and lower tax bands. If your spouse does not earn anything and you earn £116,210, by paying them a wage of £16,210 you would save £8,000 in tax and national insurance each year. Note that anything you pay your spouse must be commercially justifiable in relation to the work they actually undertake.

Average annual saving: £250 to £20,000

Tax trap 4: overpaying national insurance

If you are a GP partner with employed earnings from another source (eg a hospital contract) you will earn both self-employed and employed income. You may therefore be over-paying national insurance as there is a maximum amount of NI payable each year. As an employee you will pay Class 1 NI at rates of up to 12% on earnings less than £42,484. A self-employed person will pay only 9%. Over this threshold you will pay 2% on both employed and self-employed income. Depending on earnings I have seen overpayments of up to £2,000.

The National Insurance Contributions Agency should eventually identify any overpayments but this could be up to 18 months or longer after the event. There is no automatic process for identifying if you have overpaid your NI and it is down to you to apply for the repayment.

What to do: If you have both employed and self-employed earnings, you should apply for a deferrment of NI at the beginning of the tax year. The simple form is available on HMRC's website, and if you don't complete it yourself an accountant can do it for you. Once the deferrment has been granted you only pay 2% national insurance on your self-employed earnings instead of 9%, thereby deferring the 7% difference until July following the January tax return deadline. You will then be sent a final bill from the national insurance office sweeping up the difference or refunding any overpayment made.

Average annual saving: £100 to £2,200

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