Behind the spin

ASPD member Greg Penfold looks at what's in store this year in terms of the Government's Budget plans and how it could affect dentists and their practices.

This year’s Budget supposedly sees belt-tightening measures across the board, including a public sector pay cap and a rise in National Insurance contributions, that is. This seems at odds with Gordon Brown’s existing pledge to boost spending, and it has been speculated that Treasury officials had wanted to announce even more spending cuts in order to lend credibility to their plan to halve the £178 billion deficit within four years.

Whatever happens, the Pre-Budget Report (PBR) contains a number of detailed proposals behind the spin. The following article gives a brief overview of what next year may have in store, and how dentists can use this information to plan for their economic future.

Public sector pay and pensions
One of the biggest measures announced in the PBR is a cap of one per cent on public sector pay settlements in 2011/12 and 2012/13, and reforms to public sector pensions from 2012/13. This news will no doubt come as a blow to denial professionals in the NHS, many of whom will already feel disgruntled by recent changes in the industry, where morale is already at a low.

Personal tax
Practitioners should pay close attention to any increase in their earnings over the next few years. If they do rise, more and more people will find themselves having to pay substantially higher taxes as they fall into new, higher tax brackets.

Normally, tax-free allowances and the threshold for higher rate tax are increased by inflation, but due to the dire economic situation these figures have all been frozen at their 2009/10 levels. The PBR included the long-term announcement that the threshold for higher rate tax will be frozen in 2012/13 at the same levels as in 2011/12. This means that if your annual earnings reach the £37,400 to £150,000 category that year, you will be liable to pay 40 per cent tax. If your earnings creep above the £150,000 mark you will pay 50 per cent tax.

Pension contributions
With regards to pensions contributions the rules are complex, and anyone who has had a total income approaching £150,000 in any of the last three years should seek professional advice before paying a pension contribution totaling more than £20,000 in a year.

As it stands, people who earn in excess of £150,000 and make a “special pension contribution” of more than £20,000 may suffer a charge of the difference between the higher rate relief they would expect and the basic rate relief that they would be entitled to in 2011.

Inheritance tax
Inheritance tax limit was set to rise to £550,000 in 2010 but the Chancellor made a U-turn in the PBR, meaning that levels will stay at £325,000 (effectively £650,000 for a married couple or civil partnership) in 2010/11. As property prices are now back on the rise, increasing numbers of properties will fall in line with the current allowance.

Value Added Tax
Rumours that the Chancellor would increase the rate or the scope of VAT went unfounded after the release of the PBR, unless of course he plans to break the news to us after the general election. The standard rate goes back up from 15 per cent to 17.5 per cent on 1st January 2010, but there is no indication that it will go up again after that, or be applied to any of the categories that are currently VAT-free such as food, children’s clothes, newspapers and new houses.

Other measures
Yet again, practitioners are reminded that they should stay on the right side of HM Revenue and Customs. If a taxpayer fails to file a tax return on time, they may be issued with an estimation by HMRC. In the past, HMRC have offered a relief called “equitable liability” where if it was clear their estimation was excessive, they would not collect the tax.

The bad news is that recently a number of concessions have been withdrawn, including equity relief. The good news is however, the liability will now be included in the law itself. To qualify for this relief, a taxpayer must be able to show that the amount of tax demanded of them is too large, and must bring his or her tax affairs up to date by filling appropriate tax returns and paying outstanding tax, interest and penalties. However, prevention is better than cure, and it still pays to fill out your tax return in a timely manner rather than relying on this new rule as a get-out clause.

In short, the Chancellor’s Pre-Budget Report will not make good reading for everyone, and it is still unclear as to whether the Prime Minister’s plans to increase spending are just a ploy to hide the bitter taste of cut-backs and debt for which we will all have to foot the bill.