Rise and fall of new Budget

National Association of Specialist Dental Accountants looks at the impact of the coalition government’s Emergency Budget

As a result of Chancellor George Osborne’s first Budget, VAT is going up, Capital Gains Tax is going up and the Annual Investment Allowance is decreasing, according to The National Association of Specialist Dental Accountants (NASDA).

But it is not all bad news. The hike in Capital Gains Tax - up from 18 per cent to 28 per cent - has been offset by continuation of Entrepreneurs’ Relief, which has been retained and actually extended to cover lifetime gains of up to £5m. This will keep the tax rate on dental practice sales and incorporation at 10 per cent. Also, large practices and corporate groups with profits more than £500,000 will see tax rates reduce from 28 per cent to 24 per cent with a series of one per cent reductions starting on 1 April 2011.

The increase in VAT will not directly affect dental practice income, but the cost of dental supplies and services will rise as a result of the higher VAT rate. Some patients may feel that they have less money to spend on dental care as they pay out more VAT on many essentials.

The reduction in tax relief on dental equipment will be unwelcome news for any dental practice planning an overhaul and for the trade. The main rates of annual allowances will go down by two per cent (to 18 per cent or eight per cent ) and the Annual Investment Allowance limit will reduce from £100,000 to £25,000 in April 2011. Dentists who have practice refurbishment in mind should consider doing this before next April and probably before January to save VAT and maximise tax reliefs on spending.

The personal allowance - the amount all taxpayers can earn before they are taxed - will be increased by £1,000 to £7,475 for those aged under 65 next April. However, the basic rate limit will be reduced so that higher rate taxpayers do not benefit from the increase in the personal allowance. Dental nurses should benefit from this tax break, which is worth £200 per year to basic rate taxpayers.

The new chancellor has shown his support for employers with changes to National Insurance Contributions (NICs). The threshold at which employers start to pay NICs on employee wages will increase by £21 per week from 6 April 2011. This will produce an annual saving of up to £140 per employee.

In an incentive to new businesses, plans have been announced to reduce NICs payable by new employers. This could give a boost to squats and will apply to business starting after 22 June 2010, although the relief will not be fully implemented until September 2010 at the earliest. The countries and regions which will benefit will be Scotland, Wales, Northern Ireland, the North East, Yorkshire and the Humber, the North West, the East Midlands, the West Midlands and the South West.

Company tax rates are to be reduced - from 21 per cent to 20 percent from 1 April 2011 - which may provide an incentive to some dental practices to incorporate. Tax payable on incorporation has not gone up as had previously been thought.

However, some in the profession will feel the brunt of higher taxes on a personal level as gains on sale of quoted shares, second homes and other investment assets will be hit by the new tax rate, thus adding 10 per cent to some tax bills.