A budget summary for dentists

Jeff Williamson highlights the areas affecting dentists in the recent Budget

Some dentists may be able to breathe a sigh of relief following George Osborne’s 3rd Budget on Wednesday 21st March. There were no big surprises, not least because The Budget was widely leaked to journalists beforehand. In general, the effect of The Budget is likely to be neutral or even positive for many dentists, although it highlights the need for careful tax planning over the next few years.

What didn’t happen...
Contrary to rumours the Chancellor didn’t remove higher rate tax relief on pension contributions. Those dentists making pension contributions in any shape or form can hang onto this generous tax perk for at least foreseeable future.

Despite the Liberal Democrats pushing for the loss of tax free cash from pensions, this hasn’t happened. This particularly benefits those close to retirement, especially those with significant NHS Pension benefit or large personal pension funds.

‘High earners’ have avoided further raids on income or capital taxes. There were no negative changes to the rate of tax paid by higher rate taxpayers, although the loss of the increased personal allowance (£9205 in 2013/14) for those with income in excess of £100,000, is likely to be widespread amongst dentists. This shouldn’t be ignored and can be mitigated with pension contributions.

The headlines...
The highest rate of Income Tax will be reduced to 45 per cent from the current 50 per cent for those earning in excess of £150,000, from April 2015. Some careful planning may be required to time the withdrawal of income (salary/dividends/drawings) to ensure the reduction has maximum personal impact. We advise dentists reassess their business year end timing with their accountant as this may be critical to saving tax.

Stamp Duty on house purchases over £2 million is to be increased to a staggering seven per cent. On a purchase of £2 million the amount of Stamp Duty paid will be roughly equivalent to the average UK house price (£140,000). Whilst relatively few dentists will be affected by this it may set a precedent for future increases to stamp duty at a lower threshold.

The Personal Allowance will increase to £9,205 from April 2015, benefiting those with income under £100,000. If you pay your spouse and have previously set their salary in line with the personal allowance you should revisit this. However the level of income at which National Insurance is paid should also be considered. The increase to the personal allowance will unfortunately be partially offset by the decrease in the threshold for paying higher rate tax. Therefore the increase to the personal allowance is likely to benefit dentists to a limited extent.

Tax avoidance continues to be a target for the Chancellor and is estimated to cost the Treasury £5 billion a year. A General Anti Avoidance Rule (GAAR) is set to be adopted, targeting contrived or artificial schemes. Dentists considering non-standard ways to avoid income tax should exercise caution as such schemes may well be subject to future legislation. If you are part way through a tax avoidance scheme when the loophole closes this can be hugely problematic.

There was a slight softening of the proposed Child Benefit reduction, with the much vaunted ‘cliff edge’ being raised to £100,000 from January 2013 and a phasing in of the cut for those with income more than £50,000. As many dentists earn in excess of £60,000 loss of Child Benefit is likely to be widespread in the dental community.

Corporation Tax reductions are likely to benefit incorporated practices over the next three years. However most will fall outside the main corporation tax reduction to 22 per cent in 2014. The ‘smaller profits’ rate has already fallen (as per previous budgets) to 20 per cent, for companies with profits under £500,000. It is this rate that will be applicable to many incorporated dental practices.

The good news is that corpora
tion tax rate levied on the slice of profits between £500,000 and £1.5 million, known as the ‘marginal rate’, will fall. Practices considering incorporation should discuss the impact of this with their accountant.

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About the author

Jeff Williamson is a partner at PFM Townends LLP, a specialist practice serving the dental industry. PFM Townends LLP are chartered accountants dealing exclusively with dental partnerships, limited liability partnerships and sole traders. They provide a full range of accountancy services including payroll to practices, practice services in including payroll to practices, practice consultancy and management services. Please contact Jeff Williamson on 03904 036883 or visit www.pfmtreeands.co.uk for further information.

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