Safeguarding pensionable pay and the ARR

David Paul discusses the Annual Reconciliation Report for pensions

The total pensionable pay allocated to the dentists at the practice, at the practice cannot exceed the pensionable pay ceiling identified in Step 1. If there is working at the practice, a non-pensionable dentist identified in Step 2 then the declared pensionable pay on the ARR will fall short of the ceiling by the amount earned by the non-pensionable dentist. It is unlawful for this shortfall to be allocated to other pensionable dentists at the practice.

If the practice employs a dentist then the amount of that dentist’s basic NHS salary constitutes their NHS pensionable pay and must be deducted from the pensionable earnings ceiling to arrive at the balance available to the sole practitioner or partners.

Limited company
Where a practice has incorporated and the limited company holds the GDS/PDS contract or PDS agreement, the limited company is required to complete an ARR as the provider. The process involved for the practice is as follows:

• Following Step 1 calculate 45.9 per cent of the achieved GDS/PDS contract value. This is the pensionable earnings ceiling
• Declare the pensionable pay of the associates. This is the actual net amount paid for GDS/PDS work undertaken in the pension year ending at 51 March
• The declared pensionable pay of the associates is deducted from the pensionable pay ceiling. If the practice has any dentists identified in Step 2 their earnings are also deducted from the ceiling
• In the case of a sole practitioner the balance remaining represents the pensionable pay of that sole practitioner
• In the case of a partnership the balance remaining can be allocated between the partners in any proportions provided by the partnership agreement

In a limited company that all the company law and tax rules are followed when a dividend is paid. Failure to meet the necessary requirements may result in a void dividend with unwelcome tax consequences. Where salary and dividends paid to director/s are followed when a dividend is paid. Failure to meet the necessary requirements may result in a void dividend with unwelcome tax consequences.

The Pension Agency had identified that one of the main problem areas with earlier ARRs was the understatement of the pensionable pay of some 5,000 associates. The Guidance Notes with the 2011/12 ARR now clarifies the position in that any associate’s pensionable pay is the amount paid to the associate for GDS/PDS work undertaken. It therefore does not matter about the terms of the individual association.

‘It is fair to say that both the pension regulations and the guidance given by the Business Services at Eastbourne in relation to the ARR were not fit for purpose’

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In November 2011 new legislation was enacted. As a result of this legislation, it is likely that there will be major changes in the 2012/13 ARR which will further safeguard the pensionable pay position of associates. In the meantime, the 2011/12 ARR and its guidance notes are a considerable improvement upon earlier versions and should ensure a more accurate pensionable pay allocation to dentists involved.

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The correct procedure for completing the ARR and the allocation of pensionable pay is now as follows:

Step 1 Calculate 45.9 per cent of the achieved GDS/PDS contract value. This identifies the maximum pensionable pay available to the practice and is a ceiling that cannot be exceeded when the pensionable pay is distributed amongst the dentists at the practice who are members of the NHSPS.

Step 2 Identify any dentists at the practice who are not members of the NHSPS such as:
• Dentists already in receipt of their NHS pension
• Dentists who have opted out of the NHSPS
• Associates who are incorporated and who cannot pension their income with effect from 7 November 2011

Step 3 Sole practitioner or partnership

The pensionable income allocation to the dentists at the practice is as follows:

• Following Step 1 calculate 45.9 per cent of the achieved GDS/PDS contract value. This is the pensionable earnings ceiling
• Declare the pensionable pay of the associate. This is the actual net amount paid for GDS/PDS work undertaken in the pension year ending at 51 March
• The declared pensionable pay of the associate is deducted from the pensionable pay ceiling. If the practice has any dentists identified in Step 2 their earnings are also deducted from the ceiling
• In the case of a sole practitioner the balance remaining represents the pensionable pay of that sole practitioner
• In the case of a partnership the balance remaining can be allocated between the partners in any proportions provided by the partnership agreement

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About the author

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