Safeguarding pensionable pay and the ARR
David Paul discusses the Annual Reconciliation Report for pensions

The total pensionable pay allocated to the dentists working 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 or PDS agreement, the limited company is required to complete an ARR as the provider.

The process involved for the company is exactly the same as occurs for a sole practitioner or partnership up to the point that the balance of the pensionable earnings ceiling has been determined. At this point the pensionable pay of the director/shareholders who are active NHSPS members is the amount paid to those director/shareholders in the year to 51 March, the NHS pension year.

It is often the case that where a practice has incorporated the limited company receives mixed dental income (ie NHS and private). In these circumstances there is no need to apportion salary/dividends between NHS and private income for NHSPS purposes. All salary/dividends paid to dentists who are active NHSPS members up to the ceiling are available for allocation as NHS pensionable income.

It is important to ensure that where dividends are paid in a limited company that all the company laws and tax rules are followed when a dividend is paid. Failure to meet the necessary requirements may result in a void dividend with unwelcomed tax consequences. Where salary and dividends paid to director/shareholders short of the pensionable pay ceiling the unused balance cannot be carried forward to future pension years and it is unlawful to allocate the shortfall to any other pensionable dentist at the practice.

The Pension Agency had identified that one of the main problem areas with earlier ARRs was the underestimation 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 associ-