How to manage next year's tax bills

Accountant Luke Bennett explains why practice managers need to take action now to plan for bigger tax bills for some of their GP partners

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Practice managers who are responsible for paying the partners' tax liabilities should be talking to their higher earning GPs now about the possibility of substantially higher tax bills in 2018.

The impact of changes to the pension annual allowance, which came into force in April 2016, will be felt for the first time in January 2018 when any balancing tax bills for the 2016/17 tax year will fall due. This could also mean increased payments on account payable for 2017/18.

Background

The annual allowance is the increase in value of a GP's pension each year before more income tax is charged. Last April it was lowered from £40,000 on a sliding scale down to £10,000 for the highest earners. For these doctors, if the growth in pension benefits exceeds the annual allowance, the excess will be taxed at between 40% and 45%.

Who will be affected?

We estimate that one in 10 GPs will be affected. These will be predominantly higher-earning GP partners, but could also be GPs with significant personal income in addition to their practice profit share; for example, those with property portfolios or external salaried posts. The sums involved are substantial and some doctors should expect additional tax payments in January 2018 of over £20,000.

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Any GP contributing to the NHS Pension Scheme who has income, after deducting pension contributions, in excess of £110,000 should be taking advice to see if they will be affected. If tax liabilities are paid by the practice, steps need to be taken now to make sure there is enough cash to pay the tax bills by the due date. Bills are due twice each year, on 31 January and 31 July. If the partners pay their own tax bills, practice managers do not need to worry about saving for the tax. They still, however, need to ensure that their GPs are aware of the issue.

Talk to your GP partners

Perhaps the most important role practice managers can play is to make sure that their GPs are taking proper advice. They should be talking to the practice accountant who can provide an estimate of tax payable and a financial planning adviser who has specialist knowledge of the workings of the NHS pension scheme.

Start saving now

Some practices will have a separate bank account for the partners' tax liabilities into which money is saved each month and set aside from practice funds. Others may keep the tax savings mixed with practice funds, but prepare cash flow forecasts so that they know they will have sufficient funds available each January and July. Either way, steps need to be taken to ensure the funds are in place. Once you have found out which GP partners are likely to face bigger tax bills, the amounts to be saved each month can be adjusted.

Be warned that that significant amounts of extra money may need to be found, especially if you have more than one higher earning GP. Unfortunately, there will be no more income coming into the practice to help fund the increase in tax. GPs can elect for the NHS pension scheme to pay some of the tax on their behalf but maximum limits apply and large sums of cash may still need to be found.

Options

It is up to the GP partners how they plan to fund the extra tax. The option that may be least palatable to the partners is a reduction in monthly drawings although for some practices this may be the only option. For others where the partners take an end of year bonus after the accounts have been prepared, there may be enough undrawn profits so that they just take a lower bonus. In other practices, this element of the overall tax bill may be treated as a personal liability and paid from the partner's own resources.

Taking action to reduce the annual allowance tax charge

Partners affected by this will need to be considering whether they want to take action to reduce or eliminate these tax charges. Possible actions include:

- Accepting the additional tax charge as a price worth paying for continuing to accrue the valuable benefits that the NHS pension scheme affords
- Stopping paying into added years contracts
- Reducing sessions to bring the tax charge down
- Leave the NHS pension scheme and become deferred members
- Dip in and out of the scheme each year.

There will be no 'one size fits all' solution, as every GP will be in a different position. Individual advice is essential and two partners with similar income levels may have quite valid reasons for coming to different conclusions as to what is right for them.

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Plan for this now

There are no easy answers, but the only certainty is that the later it is left to take action, the harder it is to save for any extra tax. Practice managers may need to take the lead on instigating this tricky conversation, which may be one that cannot be avoided. PM

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