in The Know

Autumn 2021

ASPD Dental NASDAL National Association of Specialist Dental Accountants & Lawyers

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Half a story...

A Doddie colleague once arrived late at the dental show because they had missed their train. They were getting the train to London and at the station they asked the attendant “is this the train to London” they said “no”, so they didn’t get on it.

By Heidi Marshall

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It was however the train to Birmingham, which is where they needed to change in order to get to London! Of course the whole team enjoyed taking the micky out of him (no names mentioned!) for the duration of the show and he tried to argue it was the attendant’s fault for answering the question incorrectly. However, we would say he asked the wrong question. Regardless of who was at fault here, the point is that good communication is vitally important in order for anyone to do their job properly. The same applies to accountants - the clients we have the best relationship with, and we perform the best for, are the clients that tell us EVERYTHING.

To get the best advice from your professional advisors you should include them in your plans at the earliest possible opportunity. Ask their opinion BEFORE you do things and give them the complete picture of both your business and personal goals and aspirations. That way we can help you achieve them in the easiest, most efficient way. Making decisions purely based on what you want to achieve right now can sometimes impact what you have planned for later in life.

If you ring us up and ask a one-line question, 90% of the time we will ask you at least 5 or 6 questions back. Not because we are being awkward or nosey but because we can only give the best advice when we can see the full picture. It’s the reason we often can’t answer questions from potential new clients. It’s not to be unhelpful or because we don’t know the answer but to answer a question with only half a story is when well-meaning advice can go horribly wrong, and we really don’t want to leave you waiting 3 hours for the next train to London when you should have been on your way to Birmingham!

dodd&co healthcare know how

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Dental Associates

What you need to know about becoming self employed...

A large number of newly qualified dentists will finish their dental foundation training and find positions as associates. The majority of them will be starting out in self employment.

Below are a number of questions we are regularly asked when coming into contact with newly qualified dentists venturing into the world of self employment.

Q. Do I need to tell H M Revenue & Customs (HMRC) when I start as an associate?
If this is your first self employment, you will need to complete form CWF1. This registers you as self employed and enables you to pay your self employed Class 2 National Insurance contributions. These contributions are payable at the rate of £3.05 per week (for 2021/22) and are payable along with your January tax payment each year (see below).

If you delay registering, you may have to pay a penalty.

Q. When should I appoint an accountant?
If you appoint an accountant immediately when you become self employed they will be able to assist you with any relevant forms and outline what information they will require and when your tax will be due. Most accountants won't charge you for signing up with them and even if you don't need them until the first tax return is due, you will be on their records so they will chase you and you won't miss any deadlines.

Q. What records do I need to keep?
Most associates will receive monthly schedules detailing the earnings from the practice and the deductions such as lab bills and superannuation. Your accountant will need copies of all of these together with invoices to back up any business expenditure. Other information needed for your tax return will include details of other income received such as EDS sessions, employment income, rental income, interest received and dividends received. Details of any pension contributions and any gift aid donations made should also be entered on your tax return.

Q. What business expenditure can I claim?
H M Revenue and Customs will allow you to claim any expenditure which is wholly and exclusively for your business. Examples include any equipment you buy for the surgery such as loupes, professional indemnity insurance and General Dental Council subscriptions.

Q. Can I claim motor expenses?
Business motor expenses do not include travel to and from your usual place of work. Therefore if you only work in one practice you must not claim any costs relating to that journey or parking. Travel to courses, labs, call outs, visits to the accountant and visits to the bank manager, will be allowable. Motor expenses can be claimed either as a % of total expenditure or at 45 pence a mile depending on your turnover. Your accountant will be able to assist in deciding which method is correct for you.

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Becoming self employed / continued...

Q. How long do I need to keep my records for?
We would advise you to keep records for at least six years.

Q. What do I actually pay tax on?
In simple terms your accounting profits are made up of your income minus your business expenses. Tax is paid on taxable profits however these do vary from your accounting profits. This is because once an accounting policy is adopted it must remain in place. The tax treatment however differs year on year depending on the current tax legislation.

Q. When is my tax return and tax liability due?
Tax returns are made up to 5 April each year and are due for submission by the following January. If you have just become self employed your first tax return will be made up to 5 April 2022 and your first tax bill will be due on 31 January 2023. The sooner after the 5 April you get your information to your accountants the sooner they will be able to notify you of the liability due, giving you more time to plan.

Q. What rates of tax do I pay?
Personal tax is paid in bands at the following rates:

UK (excluding Scotland) **(2021/22)**

		£
Basic rate	20%	12,570 - 50,270
Higher rate	40%	50,271 - 150,000
Additional rate	45%	Above 150,000

Scottish tax payers (2021/22)

		£
Starter rate	19%	12,570 - 14,667
Scottish basic rate	20%	14,668 - 25,296
Intermediate rate	21%	25,297 - 43,662
Higher rate	41%	43,663 - 150,000
Top rate	46%	Above 150,000

If you earn between £100,000 and £125,000 your personal allowance (£12,570 tax free income) is tapered away, meaning income in this band is taxed at an effective rate of 60%.

In addition to your tax you must pay class 4 national insurance. National insurance is also paid in bands, at the following rates:

On profits £9,568 - £50,270 9% On profits above £50,270 2%

Q. Is it true I have to pay lots of tax in my first year?
Yes. This is because in addition to your tax liability you must also make "payments on account" for the following tax year. These payments are estimated using half of your tax liability for each payment and they are paid on 31 January and 31 July, each year.

Example:
If your total tax and Class 4 National Insurance liability for 2021/22 was £20,000, you would pay:

2021/22 tax due 31 January 2022	£20,000
First payment on account 2022/23	£10,000
Total due 31 January 2023	**£30,000**
Second payment on account 2022/23 due 31 July 2023	£10,000

That's £40,000 of tax payments in the first year you are due to pay tax!

Becoming self employed / continued...

Thereafter, once you are into the payments on account system, assuming your income remains at a similar level year on year, then your tax payments will even out too.

Q. Should I tell my accountant if my circumstances change?
Yes. You should notify them immediately as they will be able to forewarn you of the impact on your tax liability. For example if you reduce your hours and are therefore earning less, your accountant can apply to reduce your payments on account.

Q. Can I trade as a limited company?
Yes you can but that is a whole different issue! There are a number of factors to consider when incorporating your business and just because your friend has done it does not mean it is the correct route for you. Another good reason for appointing an accountant straight away is that they will be able to advise you on the best structure for your business.

Q. Should I appoint a specialist dental accountant?
Yes, non-specialist accountants are competent at producing accounts and tax returns, however dentists do not only have to adhere to the tax legislation, but also the GDC and the terms of their NHS contracts. NHS dentists also pay into the superannuation scheme which is a scheme unique to the medical and dental profession. By appointing a specialist you will not only have peace of mind that your accounts and tax returns are taken care of but that you can also seek their advice on any other issues within the industry.

Total Reward Statements (TRS)

For dentists with NHS income, the annual TRS was available from 31 August 2021 and should be made up to 2020/21. For those working in Scotland, the Annual Benefit Statements (ABS) was available from the end of September 2021.

The TRS/ABS is a personalised summary that shows members their full employment package, including:

- Basic pay
- Available benefits
- Pension benefits (for both schemes, if applicable)

It is worth obtaining an estimate each year to check it is correct and up to date. Please send us a copy for our file so that we have this when we look at your pension position.

You can obtain estimates using the following links:-

England https://www.nhsbsa.nhs.uk/employee-section
Scotland https://mypension.sppa.gov.uk/Login.aspx?ReturnUrl=%2f

If you are not sure about anything on your TRS/ABS, please feel free to send a copy to your normal contact, contact us on our client portal or email it to hello@doddaccountants.co.uk and we will have a look at it for you.

TAX UPDATE

There is lots going on in the world of tax and as expected there are going to be some increases heading our way. Here's a reminder of what to expect:

Super deduction

From 1 April 2021 until 31 March 2023, companies investing in qualifying new plant and machinery assets will be able to claim a 130% super-deduction capital allowance on their investment in those assets. The 130% super-deduction for qualifying items will allow companies to cut their tax bill by 24.7p for every £1 spent for the relevant period, even though the corporation tax rate remains at 19%.

Used or second-hand assets will be excluded from the relief as will expenditure on contracts entered into prior to 3 March 2021, even if the expenditure is incurred after 1 April 2021.

Corporation tax

The corporation rate will increase from 19% to 25% with effect from April 2023 for companies with taxable profits over £250,000.

Many small companies will continue to pay tax at 19% where annual profits are below £50,000.

For those companies with profits between £50,000 and £250,000 the first £50,000 will be taxed at 19% and the profits over and above £50,000 will be taxed at a marginal rate of 26.5%, which will give an effective tax rate of between 19% and 25%.

Personal allowance

The other main tax increase that was announced in March is the freezing of personal tax thresholds until 2026, but this stealth tax raising measure has been deferred until April 2022.

New social care levy

As announced in early September, the government plan to create a new social care levy. To fund this, national insurance contributions are to increase by an additional 1.25% with effect from 6 April 2022. This will apply to class 1 and class 4 NIC which includes employees, employers and the self employed.

Also announced was an increase in dividend tax rates (also an additional 1.25%). This feels particularly harsh given small owner managed limited companies who remunerate themselves via salary and dividends, such as dental associates operating through a company, were some of the few businesses not to qualify for any government funding during the pandemic.

Autumn Budget

Rishi Sunak delivered his 3rd Budget speech on Wednesday 27 October 2021, which contained a wide range of favourable announcements for both businesses and individuals.

Full coverage is available via our website: www.doddaccountants.co.uk

Planning your retirement

It's certainly been an interesting past 20 months or so in Dodd Wealthcare. We have seen numerous people bring forward their plans on becoming free from work and some who simply want to take stock of their financial situation given what has been going on in the world. I have also seen the total opposite with some people not being keen on finishing work when they had intended because they don't know how they will fill their free time - although I have to say these people are few and far between!

For those who have decided to sharpen their focus on becoming free from work there is always one consistent factor - "Do I have enough money?"

Some people see financial planning as buying/selling products to match a specific need at a certain point in time, but here at Dodd Wealthcare we like to do things a little differently. One of the most important tools that we have at our disposal is cash flow modelling. This tool enables us, with the individual's specific needs at the forefront, to drill down on forecasting for a lifetime of financial planning.

As we work closely with the Dodd & Co tax department, we are able to bring to life real scenarios which we can run through in terms of what the client should expect and when this should be expected. This can include making additional savings to save tax (either income tax or corporation tax depending on your business structure). This tool can also factor in any needs for capital in the future and what impact this could have on the overall financial position as well as any receipt of capital, such as sale of business etc.

There are a few things that need to be remembered when using the cash flow tool (which is the same with any financial planning that is carried out):-

- **Review your expenses on a regular basis. It's important that you analyse all expenses and not just the large ones. You'd be surprised at how much things like newspaper/magazine subscriptions add up to, combined with other things that are a few pounds here and there. Although it might not seem like a huge deal, it tends to be those smaller expenses that can quickly add up to become a big drain on resources.**
- **Consider your essential and non essential outgoings.**
- **Regularly revisit your budget. Budgeting should be an ongoing process that changes with your circumstances.**

If the "R" word is currently something you're thinking about, or you just want a realistic picture of what your finances might look like when you get there,please give me a ring, I'd love to hear your plans and help you get there!

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Buying a car through a limited company

With environmental issues being headline news of late, we've been receiving queries for advice from our clients regarding buying a company car.

Any Ultra Low Emission Vehicle (ULEV) car will qualify for a 100% first year allowance (providing it is a "brand new" car, i.e. not pre-owned and is purchased and not leased) so the entire cost of the vehicle can be offset against company profits in year 1. If you are spending £80,000 on a car then your company will save 19% of this in corporation tax, so £15,200. This tax relief is a first-year allowance relief and will not diminish the company's Annual Investment Allowance for the period.

If your company is providing you with a company car, you will be liable for tax on the company car benefit. The rates are 1% in the current 2021/22 tax year but are set to increase, albeit only slightly, to 2% from the 2022/23 tax year.

The benefit in kind (BIK) charges on these ULEV cars (with emissions of zero CO2/km) are as follows:

2021/22 – 1% of list price
2022/23 – 2% of list price
2023/24 – 2% of list price*
2024/25 – 2% of list price*
*Subject to confirmation

Assuming you were to spend £80,000 on one or two electric cars, you would save corporation tax of £15,200 in year 1. Benefit in kind charges would be £800 in 2021/22 and £1,600 in each of the years 2022/23 to 2024/25, which means tax for a higher rate taxpayer of around £320 and £640 respectively (i.e. 40% of the benefit).

If you are looking at electric-only vehicles, there is no fuel benefit to worry about.

Class 1A NIC is also payable by the company at a rate of 13.8% on the benefit in kind.

As the car would be owned by the company, any repair costs, servicing, insurance etc can all be paid for by the company, obtaining 19% corporation tax relief.

One important point not to forget is that when the car is sold/traded in, because you have had tax relief in full at the outset, any sale proceeds are taxed in full in the company. Therefore an £80,000 car on which you have had £15,200 tax relief when purchased will have, for example, £7,600 of this tax relief clawed back on sale if the car is sold for £40,000.

For help and advice contact your usual Dodd & Co tax consultant or email hello@doddaccountants.co.uk

Dental Associate agreements

There are two important changes that all practice owners should be aware of:

1. NHS Pensions recently issued new guidance surrounding dental practice contracts with associates and whether or not the associate is entitled to NHS pension.

We have known for a number of years now that dental associates operating through a limited company can't pension their earnings. However, it's not always been overly clear what the situation is where there is a subcontract involved at practice level and/or a hybrid structure (where the private work is operated through a limited company and the NHS work remains personal). The new guidance now makes this very clear - the contract with the associate MUST be with the NHS contract holder or their earnings are not pensionable.

The full guidance can be found at https://bit.ly/3aX4L8n

2. Dental associates have traditionally been self employed and there was a HMRC notice (ESM4030) supporting this. HMRC have now announced that they will be withdrawing this notice on 6th April 2023. All practices will be expected to assess whether or not their associates are employed or self employed using the HMRC CEST tool in the same way other industries have to.

To be clear HMRC have not changed their view on the employment status of associates and in most cases we do still expect them to be self employed. However, each associate should be assessed separately based on the terms in their contract and what happens in practice.

If you would like to check your associates' employment status using the CEST tool you can do this here: https://bit.ly/3B8b6Zy

With these two changes there has never been a better time to revisit your associate agreements and ensure they are in the right name and achieving what you want them to achieve.

For help and advice contact heidi@doddaccountants.co.uk.

dodd&co healthcare know how

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