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AISMA Doctor Newsline

At the heart of medical finance...

Here's three cheers for the new year -and a trio of tax nasties to beware of

2019 presents some key opportunities for GPs arising from the last Budget. **Faye Armstrong*** outlines three to be aware of and warns of three more potential pitfalls to watch out for

WHAT'S GOOD

1 Lifetime allowance increase

The lifetime allowance will increase on 6 April 2019 from £1,030,000 to £1,055,000.

This is a modest rise but still a welcome one for many GPs. If you are close to or over the lifetime allowance threshold, remember that action can still be taken to mitigate the tax by taking a larger lump sum and smaller pension.

But this should only be done after speaking to your accountant and independent financial adviser (IFA).

2 New tax relief for surgery developments

When a surgery development takes place then your accountant will split the costs into three categories:

- spend on items such as plant and machinery
- spend on integral features, such as the electrical and heating system
- everything else.

Costs in the first two categories qualify for the Annual Investment Allowance and the first £200,000 of spend each year (or the first £1m for two years from 1 January 2019) can be set off against profits for tax.

Until recently there was no tax relief on the spend going in the 'everything else' pot.

But this changed on 29 October 2018 and costs in this pot other than the price of purchasing the land are now eligible for 'Structures and Buildings Allowance' (note this is only available on new constructions commenced on or after that date).

The rate of tax relief is quite modest, at only 2% of the eligible cost a year, but it is still very welcome to have a way of getting at least some tax relief where none was available before.

3 Income Tax thresholds

The Budget's benefit to the widest number of healthcare professionals are the changes to the personal allowance and the extension of the basic rate tax bracket.

The personal allowance will increase from £11,850 to £12,500 and the 40% tax rate will only kick in when taxable income goes over £50,000, whereas in 2018-19 any taxpayers earning more than £46,350 would pay tax at 40%.

"Changes to personal allowance and extension of basic rate tax bracket benefit widest number of healthcare professionals"

This change could save those who can keep their taxable income under the £100,000 mark around £860 in Income Tax over the course of the year.

The savings are slightly smaller if taxable income goes over £100,000 as the taxpayer's personal allowance will start to be withdrawn so the full benefit of the increase in the personal allowance will not be enjoyed.

But even if the individual's earnings are over £125,000 and their personal allowance has been fully withdrawn, they could still benefit by £600 from the changes.

The additional rate tax threshold, above which taxpayers pay tax at 45%, was left unchanged at £150,000.

It is worth noting that Income Tax rates and thresholds in Scotland are different, and those for 2019-20 had not been published at the time of writing.

WHAT'S NOT SO GOOD

1 Lower tax relief on high emission cars

If you plan to buy a new car with CO2 emissions of 110g/km or more it could pay to do so before

5 April 2019. From that date only 6% of the car's cost (restricted for private use) can be set against tax rather than the current 8%.

The overall tax relief received over the life of the car will be the same but the rate at which it can be claimed will be slower.

Most family cars, 4x4s and performance cars have CO2 emissions above 110g/km so this change will capture a wide range of vehicles.

If you can choose an alterative car with emissions between 51 and 110g/km you will be able to get tax relief on 18% of the car's cost in year one (after a suitable adjustment for private use).

And if you can find a car with emissions of 50g/km or under then you get tax relief on the full cost of the car in year one (once again after a restriction for private use).

However, if you are looking for a car with CO2 emissions of 50g/km or less you really need to be shopping for an electric one.

2 Entrepreneur's relief restrictions

Entrepreneur's relief can reduce the tax on gains from disposing of a business to 10%. This relief is often used by retiring GPs when selling their share in a surgery building or their shares in a pharmacy company where they have been a director.

Assets currently only have to be held for one year to be eligible for entrepreneur's relief but from April 2019 this will be extended to two years.

This should not be too much of a problem for gains on surgery buildings because it is unlikely that a GP who has only owned the surgery for one year would have much of a gain to tax.

"If you can find a car with emissions of 50g/km or under then you get tax relief on the full cost of the car in year one"

But for assets which grow in value more quickly this could be more of a problem. It is now more important than ever to start planning for asset disposals well in advance of them taking place.

3 Take care when relocating

GPs are a relatively mobile group, and when moving practice a house move is often involved.

A relocating GP will sometimes keep hold of their old home for a while, either to see how the new position works out or because it is taking a while to sell.

Currently, so long as the GP sells their house within 18 months of moving out, any gain made when the house sells should be tax free.

But there are plans to halve the period of time covered by this exemption so that from April 2020 a homeowner will have to sell their property within nine months of moving out to be sure it will still be fully exempt from capital gains tax.

Overall, last October's Budget was much more positive than expected. The next one will either be triggered by a no-deal Brexit, or be the first outside the EC, so will certainly be one to watch.

Crazy tax penalties stop GPs from working longer

OPINION **Luke Bennett**, AISMA committee member

It's now commonly recognised that there is a shortage of GPs wanting to become partners and the *GP Partnership Review: Interim Report* has examined many of the reasons for this.

It notes that 'the pay differential between a partner and a salaried GP is falling in some practices, and the differential does not compensate for the additional responsibility, risk and workload carried by practices.'

This is undoubtedly true but in my view it only covers part of the problem.

Even where there is an adequate differential between the income of a partner and a salaried GP, this can be seriously eroded because of the high marginal tax rates that are payable as income increases.

This struck home to me when comparing the take home pay of a full-time GP, with a married couple who both work half-time.

The full-time GP earns £120,000 and is the family's sole earner. The couple earn £60,000 each.

Both families have two children and the GPs have student loans. Even though both families have the same income, after tax and pension contributions the couple working half-time take home an extra £14,000 a year.

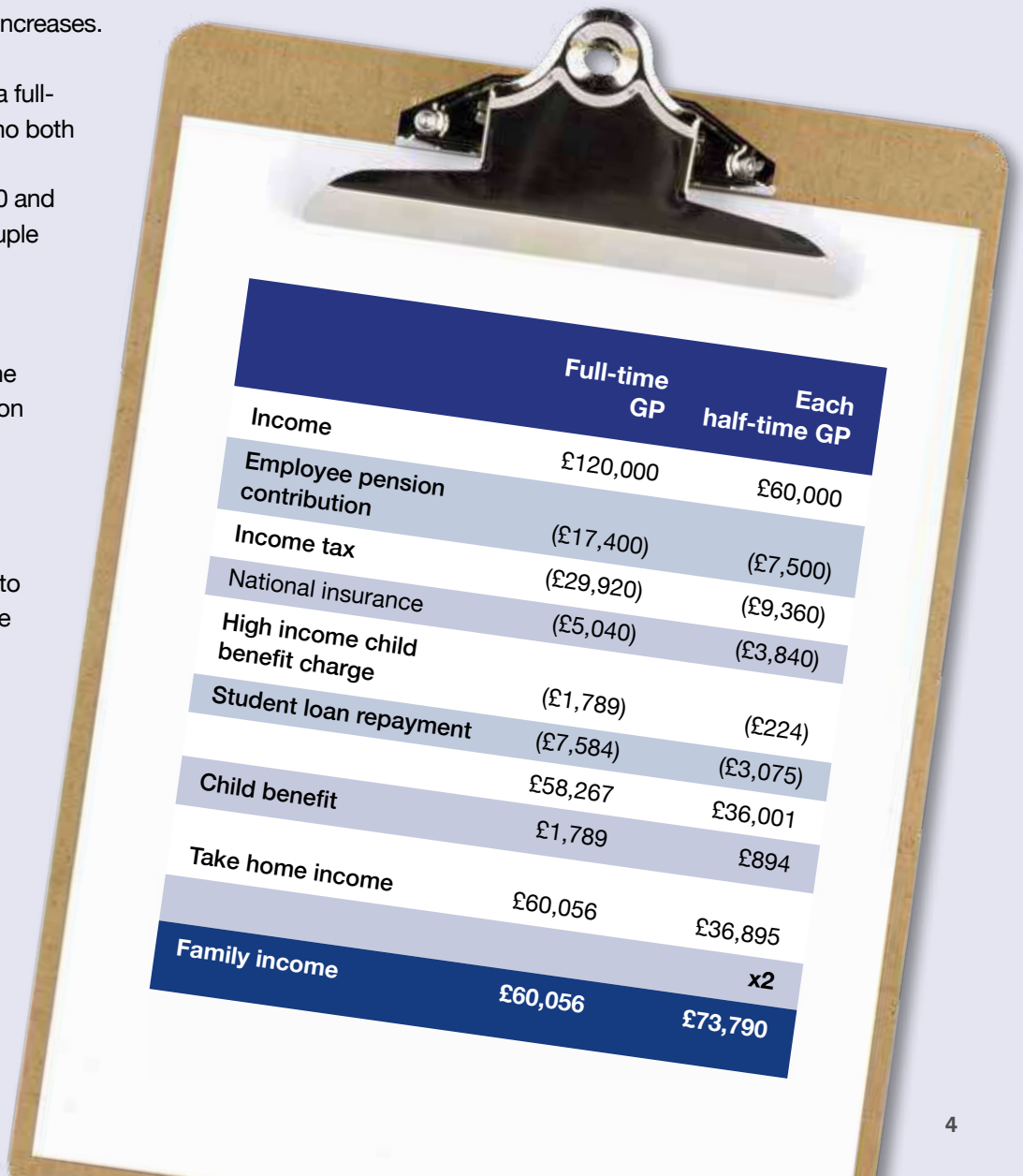
The position gets even worse if our full-time GP decides whether to earn some extra money with some out-of-hours shifts.

I have seen situations where the combination of the reduced personal allowance on income in excess of £100,000, the tapering of the pension annual allowance when income exceeds £110,000, and the repayment of the student loan, means that take home pay can actually be lower even though gross income has increased.

We have reached a situation where it is not worthwhile for GPs - who are willing and able to work more - to do so because the improvement in their take-home pay is so small.

This leads to the position where GPs decide not to offer themselves for out-of-hours shifts, because the increase in take-home pay is insufficient reward for the time put in.

While there is public acceptance that those who earn more should pay more tax, in my view the marginal tax burden on higher earners is now too high. At a time when there is a shortage of GPs this is a self-defeating position in which the Government finds itself.



	Full-time GP	Each half-time GP
Income	£120,000	£60,000
Employee pension contribution	(£17,400)	(£7,500)
Income tax	(£29,920)	(£9,360)
National insurance	(£5,040)	(£3,840)
High income child benefit charge	(£1,789)	(£224)
Student loan repayment	(£7,584)	(£3,075)
	£58,267	£36,001
Child benefit	£1,789	£894
Take home income	£60,056	£36,895
		x2
Family income	£60,056	£73,790

Overcome those barriers to let your manager lead

Fiona Dalziel examines the difference between a manager and a leader, the situation in many practices today, and what will be needed in the future

The question of how practice management works was tackled by June Huntington in 1995 in her excellent book *Managing the Practice – Whose Business?*

Back then the role of the practice manager was still new. Many practices were struggling with how to make best use of a manager's skills and some GPs remained suspicious of how a non-medic could understand the business.

The role of the practice manager has developed enormously since that time and GPs are now adept at maximising the benefit the practice gains from the role.

Career opportunities for managers have widened, especially in the last five years or so. Many are able to take on senior or specialist roles within super-practices.

Why has this happened? One reason is that many practice managers are able now to function as leaders in the practice.

This concept has taken time to develop; the word 'leader' does not appear in the index of June Huntington's book. Although still a minority, some practice managers are partners in their practice.

Reflecting the differences between individual practices, there remains a huge variety of functions at a variety of levels between practice managers. And, although the role of the manager

"Although the role of the manager is now valued there remain huge opportunities for practices to develop the role still further"

is now valued there remain huge opportunities for practices to develop the role still further.

The leadership vacuum

Effective leaders have excellent management skills, but not all practice managers function as leaders. Either they lack the confidence to exercise leadership or the function exists somewhere else in the practice.

Additionally, the role conflicts described in June Huntington's book still exist and many GPs feel that, in a traditional partnership model, the practice is their business and they should be the leaders.

In many practices, none of the GPs wants a leadership role at all. There is no neat answer to this, except to say that practices lacking a clear leader are disadvantaged and risk becoming dysfunctional.

There are many reasons for GPs abrogating the leadership role. In a practice where there is a leadership vacuum, this function could be delivered by the practice manager.

Looking at leadership

Most practices have a planning process, but many do not review senior roles. This needs honest discussion of individuals' wishes and aspirations and a recognition that taking on a leadership role is not for all.

Practices should:

- review GPs' management roles
- review the practice management function
- look ahead, and
- identify gaps.

Many GPs feel unable to take on any more than a purely clinical role in the practice; leadership roles and tasks can be included in the practice management function.

Developing practice manager leadership

In many practices, the move from GP leadership to practice manager leadership has been a natural process or because of moving away from a partnership model. GPs take a clinical leadership role and the practice manager can lead on all business functions. These definitions are not clear-cut or definitive!

This model works well as long as some important building-blocks are in place.

Training

Leadership is a combination of personal characteristics, leadership style and leadership function. Excellent training is available throughout the country on leadership and provides added knowledge and confidence for the new or aspiring leader.

"Taking on a leadership role in practice management is an important first step for managers who wish to take advantage of new opportunities"

Mentoring and support

All practice managers understand the isolation of the role of the manager, and the role of leader is no different. Managers new to a leadership role should be supported either within the practice or externally by a mentor who provides a listening ear and constructive feedback. Or, ideally, by both in the early days.

Decision-making structures and processes

In an organisation such as a practice, where ultimately harm can occur to patients because of poor processes, decision-making structures and functions are very important for clarity and consistency.

Leaderless practices tend to have weaker decision-making structures and processes and professions become isolated from each other.

It is essential that a manager who is the leader is supported by excellent structures which also include good agendas and minutes, follow-through and reporting.

Chairing meetings

Effective chairing skills support effective decision-making structures. These skills can be learned and developed so that, for instance, divisive decisions 'in the corridor' are avoided.

The future

General practice is increasingly working in a changing environment, facing demographic change and recruitment issues.

Emerging models of delivery of care as potential solutions to these problems provide opportunities for both GPs who wish to concentrate on patient care and practice managers who wish to develop their skills and experience.

Taking on a leadership role in practice management is an important first step for managers who wish to take advantage of new opportunities.

In addition, opportunities are created for GPs who wish to lead but wish to do so in a clinical rather than a business function. Practices should take the opportunity to consider these wider issues during their next planning process.

I would love to know what June Huntington would think now, more than 20 years later, of how practice management has developed.

Managing the Practice – Whose Business? June Huntington, Radcliffe Medical Press Ltd, 1995

Fiona Dalziel runs DL Practice Management Consultancy

AGONY AccoUNTant

Our agony accountant answers more of your questions about general practice financial issues.

You can ask a question by contacting your local AISMA accountant or messaging us through twitter @aismanewsline.

In this issue our accountant answers a mix of topical practice management issues

Q **Our accounting software is getting a little old and we need to upgrade for 2019. What should we look for in a new package?**

A Over the past couple of years there has been a significant change in accounting software and how you can interact with your accountant. The major software providers have moved their software to cloud-based platforms.

These bring significant benefits because they can be accessed anywhere and most come with apps to allow access from phones – so you can even update your accounts in those boring CCG meetings!

Usefully though they also allow your accountant access, so it removes the need to transfer data. This brings benefits at year end but also allows support in-year as your accountant can update the accounts on the same version as you.

As digital technology improves, many packages now directly link to your bank allowing you to download transactions rather than enter them line by line. It is a major time saving and it also brings the added benefit of it always matching the bank. Now that makes a happy accountant!

We also have Making Tax Digital (MTD) coming in which will mean that accounting transactions will need to be submitted in a digital format to HMRC.

The first wave of businesses will be VAT-registered businesses which will need to submit VAT returns digitally from April 2019. Having software which is compliant with MTD is essential.

Non VAT-registered businesses will follow so now is the best time to consider moving away from a desktop version of software to a cloud-based one which copes with the digital transformation ahead.

Your AISMA accountant will be best placed to advise on this and many will have negotiated good deals with software suppliers and will help you with the transition and training.

Q **Do we really need a partnership agreement?**

A Of course m'learned friends in the legal profession would always say 'yes' but we would agree as well.

Hopefully it is a document you never really need to use but they do set out the rules of how a partnership should run.

Generally, they are agreed when everyone is getting on and so it makes it a lot easier when problems occur as you have pre-agreed the rules.

If you do not have an agreement you are risking having to follow generic partnership law which goes back to the 19th century.

Agreements should deal with many different issues from holiday and other leave, what is a practice expense and what is not, and what happens when someone leaves under both good and bad terms.

They also should deal with the trickier issues such as what happens if someone is suspended or, even worse, someone commits a criminal offence.

Separate property agreements are also more common these days as GP premises get more complex.

Having a good legal document drawn up by a solicitor who has a thorough working knowledge of the NHS and GP contracts in my view is essential. And make sure they are updated as and when the partners change in a practice!

Q **I am thinking of changing my car this year. What should I consider?**

A **The starting po**int with cars is choose the car and the timing of the car change to suit you. You should rarely change it for tax purposes.

Options include buying the car outright. In this scenario you will get tax relief on the purchase by claiming a depreciation allowance called a capital allowance each year. The amount you can claim depends on the car's emissions – not surprisingly lower emission cars get more allowances in the earlier year of ownership.

Leases are becoming more common but you need to check what type of lease you are signing up to. Some are essentially loans with balloon payments at the end whereas others are simply rental agreements.

How the tax relief will work will differ and you are best checking with your AISMA accountant on this. The plus side to these types of deals is that they make cars affordable from a cashflow perspective.

The downside is that you are generally tied into a fixed term and you then have to change cars at the end of the term rather than perhaps when you want to.

Remember though that any tax relief is restricted to how much you use the car for business purposes. So not all expenses can be offset in full for tax.

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"If the merged partnership does not need the property then the current owners will need to decide whether to dispose of it or put it to some alternative use"

Property tips on GP mergers

Careful pre-planning of the property issues can make GP practice mergers faster and more efficient. Saji Bratch *picks out some vital considerations to think of well in advance*

FREEHOLD PROPERTIES

Agreement must be reached about how to deal with any freehold property owned by the merging practices and used for GP services.

For example, will the freehold property be transferred into the merged partnership or will the partners who currently own it continue to do so and grant a lease to the merged partnership?

Alternatively, if the merged partnership does not need the property then the current owners will need to decide whether to dispose of it or put it to some alternative use unconnected with

the merged practice.

Merging partnerships should investigate their freehold titles of property used for GP services. We often find buildings have been held in the names of partners who retired many years ago. The parties should initially arrange for transfers of the freehold properties into the names of the current partnership.

The transfers could happen at the same time as the merger but if some partners have long since disappeared then it is best to resolve this before the merger transaction goes ahead.

Otherwise extra provisions will need to be included in the merger agreement to make the current partners contractually responsible for ensuring that historic partners have been removed from all title documents and been paid any money they are owed.

"Check the bank's requirements at an early stage as its consent will be needed for any transaction involving charged property"

Partners who have left and are asked to facilitate a merger are often unwilling to assist. This can delay things so it is best to try to resolve these issues early on and avoid merger complications.

If any lending on the freehold property needs to be redeemed or taken on by the new partnership the lender will want to ensure the correct parties are holding the property.

The lender will also want to see that all those who are active in the partnership are responsible for the mortgage, rather than GPs who have left the partnership and are no longer involved.

I advise practices to check the bank's requirements at an early stage because its consent will be needed for any transaction involving charged property.

Delays can be caused by various factors. For example, we have come across former partners who have moved abroad which means extra hurdles need to be overcome to enable their execution of documents and proof of identity for Land Registry purposes.

And we know cases where previous partners have since been made bankrupt or have died. Resolving all these issues in readiness for the merger can mean many extra steps and delays. There might also be Stamp Duty Land Tax (SDLT) implications.

LEASEHOLD PROPERTIES

As with freehold property, agreement is needed over how any leasehold property held by the merging practices and used for providing GP services will be dealt with.

If the merged practice will continue to use the leasehold premises, then in most cases the lease will be assigned to the merged partnership.

As with freehold premises, check that the lease is held in the correct names of the current partners to avoid merger complications and delays.

Whether there is to be one transfer to the merged partnership, or transfers will be staggered before entering into the merger agreement, the lease terms may require landlords to give their consent.

When we draft a lease for a partnership we try to ensure it can be transferred without consent if it is between partners who will take over the GP services contracts or retire.

But not all leases include these provisions and landlords' consent may be required if there is any change in the partners who hold the lease.

Landlords will also seek to get their costs paid by the partnership. Sometimes the existing tenants will be required to guarantee the performance of the lease obligations by the transferees.

Alternatively, it might be possible to negotiate with the landlord for the existing lease to be surrendered and a new one granted to the merged partnership. Take advice about Stamp Duty Land Tax payable on any new lease.

We often find that premises occupied by partnerships are not the subject of a formal lease or other right to occupy, particularly where the practice is in former PCT premises.

All parties need to be made fully aware of all the implications of this and consider and agree the way

forward for provision in the merger agreement.

The implications will vary significantly based on the facts surrounding the occupation and previous discussions and dealings with the owner of the building.

If the merged practice does not need any leasehold property held by any of the merging practices, the existing leaseholders will either need to negotiate a surrender of the lease with the landlord or seek to assign or sublet the premises to another tenant.

All of this will need the consent of the landlord, who may require payment for surrender fees, legal and surveyor's costs and for dilapidations. Be sure to factor this in to the cost of the merger.

As with freehold property, if the leasehold property is charged to the bank, the bank's consent will be needed for any dealings with the lease.

GENERAL

Generally, if there is to be a re-mortgaging, then lenders will raise queries. Consider these very early on to ensure all issues are investigated and resolved to the satisfaction of both the lenders and the newly merged partnership.

Reports on title and searches may be required. This can take time and cost in the region of about £800 per property just in search and land registry fees.

Accountants should also be closely involved in providing advice, particularly where properties are held in the names of previous partners who may have been receiving income from them.

If so, then the status of the property for accounting purposes may mean it is not held as partnership property and any transfer would not benefit from relief from SDLT.

This should all be investigated at an early stage so that the parties can budget for any extra cost resulting from the merger proposal.

Saji Bratch is property partner with the law firm Ward Hadaway