

## **GPC GUIDANCE FOR GPs' ACCOUNTANTS**

### **ANNUAL CERTIFICATE OF PENSIONABLE EARNINGS – ACCOUNTING ISSUES**

This guidance has been prepared on behalf of the BMA's Pensions Department and General Practitioners Committee by Kingston Smith Chartered Accountants in response to common queries received from GPs and their accountants on the new arrangements for assessing GP pensionable earnings.

This guidance is intended primarily for GPs' accountants for them then to discuss the arrangements with their GP clients.

This guidance follows the GPC's guidance on the new arrangements "Focus on assessment of GPs' pensionable earnings" issued earlier this year.

The new arrangements, full details of which are on the NHS Pensions Agency website for England and Wales ([www.nhspa.gov.uk](http://www.nhspa.gov.uk)), apply to GPs (General Medical Services (GMS) and Personal Medical Services (PMS)) in England and Wales who are pensioned under the practitioner method, except for salaried GPs directly employed by a practice, Primary Care Organisation (PCO) or trust out-of-hours provider. It is anticipated that the respective Pensions Agencies will be issuing similar arrangements in Scotland and Northern Ireland. Nevertheless, confirmation from the relevant Departments of Health and Pension Agencies as to whether the same process will be put in place is still awaited.

### **NON 31 MARCH YEAR ENDS**

The Certificate has been drawn up for use by all GP Practices regardless of their year ends. The new system uses the NHS profits of a practice as the basis of the superannuation calculation for each tax year.

For example the profits assessed for 2004/05 will include:

Year ends from 6 April 2004 to 5<sup>th</sup> April 2005.

The most common non-March year end in this tax year is 30 June 2004 which will be used for illustration purposes in this guidance.

### **Overlap profits**

The concept of overlap relief was developed to ensure all profits are only superannuated once. For a year end 30 June 2004 superannuation contributions had already been paid on profits from 1 July 2003 to 31 March 2004. The overlap calculation is made for 9/12 of these profits and this overlap figure is deducted from the profits assessed in the year of retirement.

For new partners joining a practice with a non-March year end some profits earned in the first year are taxed twice. This element of double taxing is corrected on retirement from the practice. Superannuation overlap relief was derived to deal with this double counting to prevent GPs paying superannuation profits twice.

### **The effect on pension**

It has been pointed out that while the overlap calculation ensures that the total superannuable profits of a GP with an earlier year end are identical to those of a GP with a later year end, there will be a difference between the dynamised profits of the two GPs. This is illustrated in an example below where it is assumed profits will rise every year by 10%. If this is the case then profits earned in accounts to 30th June 2004 will be lower than those earned to 31<sup>st</sup> March 2005 and as both years are assessed in 2004/05 the practice with the 31<sup>st</sup> March year end will have higher superannuable profits and pay higher superannuation. Also, as the overlap profit paid in the last year is not uplifted by the dynamising factor at all, the dynamising factor in the last year will always be '1'.

As a result, it has been suggested that, where two GPs have similar earnings, the one with an earlier year end will tend to have a lower annual pension than one with a later year end.

**NEW SUPERANNUATION RULES  
COMPARISON OF 31ST & NON-31ST MARCH YEAR ENDS**

**ASSUMPTIONS**

GP 'A' earning £90000 in year to 30th April 2004  
Profit increases at 10% annually  
Therefore GP 'B' with year end of 31st March 2005 will have profit of £98250.

The certifiable superannuable & dynamised profits for the next 15 years will be :

		<b>SUPERANNUABLE PROFITS</b>		<b>DYNAMISED PROFITS (USING SIMPLE 10%)</b>	
		<b>A</b>	<b>B</b>	<b>A</b>	<b>B</b>
2004/05		90000	98250	341777	373107
2005/06		99000	108075	341777	373107
2006/07		108900	118883	341777	373107
2007/08		119790	130771	341777	373107
2008/09		131769	143848	341777	373107
2009/10		144946	158233	341777	373107
2010/11		159441	174056	341777	373107
2011/12		175385	191462	341777	373107
2012/13		192924	210609	341777	373107
2013/14		212216	231669	341777	373107
2014/15		233438	254836	341777	373107
2015/16		256782	280320	341777	373107
2016/17		282460	308352	341777	373107
2017/18		310706	339187	341777	373107
2018/19	Real	341777	373107	341777	373107
	Overlap	262124		262124	
		<b>3121658</b>	<b>3121658</b>	<b>5388779</b>	<b>5596605</b>
Annual pension @ 1.4%				75443	78352

This issue was considered, and the potential differences described above were acknowledged as one of the by products of a system that tries to track real instead of averaged profits. It is difficult to generalise as the outcome will depend upon future profitability of each practice.

**Changing the year end**

The question of whether a practice should change its non-March year end is something GPs and their advisors must consider. This issue has pros and cons and the individual circumstances of each practice will differ. The complexities of changing year ends and future, anticipated trends in profits are important considerations. One major advantage of a June year end is that Income Tax payments are delayed where there are rising profits. An example is set out below:

Profits 30/06/2005 and 31/03/2006 are both assessed 2005/06.

Tax paid on:

31/01/06	50% based on 2004/05
31/07/06	50% based on 2004/05
31/01/07	Balance being increase in profit between 2004/05 and 2005/06.

This means practices with March year ends are paying the balance of tax on higher profits nine months earlier than those with a June year end.

A June year end also allows a practice longer to plan for their tax bill and to agree payments on account for superannuation with the PCT as their accounts will be available much earlier in the tax year.

For example if we assume accounts are available six months after the year end this will mean:

<b>2005/06</b>	<b>Accounts ready</b>	
30/06/05	31/12/05	3 months before 2006/07 year begins. 13 months before 31/01/07 tax catch up payment.
31/03/06	30/09/06	6 months after 2006/07 year begins. 4 months before 31/01/07 tax catch up payment.

If a practice with a non-March year end changes its year end it may also give rise to an additional tax bill now which would otherwise be paid on retirement. This is due to taxation overlap relief. Where this figure is higher than the current profit levels an additional tax liability will be generated. For GPs operating in 1996/97 their overlap relief will be based on this year's profits which are likely to be substantially lower than current year's profits.

It is therefore for the individual GP and their advisor to decide which year end will be in their best interest taking all of these factors into account.

It has been suggested that in order to reduce these differences, the calculation could be amended to give GPs the option of increasing their superannuation contribution each year by the overlap amount possibly a year in arrears. It is felt that this will further complicate the new system and will not reflect contributions based on NHS profits achieved which is the main purpose of the new rules. Furthermore, it is not possible to pay pension contributions on earnings outside the tax year and, in years where profits are lower than previously, doctors may not be able to pay sufficient contributions to do this.

#### **TIMING OF TAX RELIEF ON SUPERANNAUTION PAYMENTS**

Can GPs claim tax relief on superannuation calculation on an accruals basis or are they limited to contributions actually paid in the accounting period?

Practices now make superannuation contributions for their employees and for themselves. The contributions relating to their own income are now for employer contributions 14% and employee contributions 6%. These figures are calculated using the new pension form. Most practices have been making payments on account to the PCO. Pension and superannuation contributions are allowed as a tax deduction on a paid basis not on an accruals basis. Therefore only the payments actually made during the tax year e.g. 6 April 2004 to 5 April 2005 will be deductible for 2004/05 tax year.

By contrast income earned by a practice must be shown in the practice accounts on an accruals basis i.e. if a private medical is carried out on the last day of the accounting period but not paid for six weeks this must still be recorded in the accounts as income.

With regard to Quality and Outcomes Framework payments, such payments may only be pensioned in the year earned if the contributions are paid in that same year, which means that

these earnings cannot be accrued if the pension contributions are not accounted for in the same year.

Practices with 31<sup>st</sup> March year ends will provide for the full amount of QOF earned in that year. Some monies will be paid on account with the balance that is paid after the year end being accrued.

Practices with non March year ends will still have to provide for the QOF earned during the year but the figure accrued will of course be a proportion of the total for the year ended 31<sup>st</sup> March. GPs should discuss with their accountant what proportion of the QOF should be accrued.

The simple method would be to pro rata the total sum so for example a practice with a 30<sup>th</sup> September 2004 year end provides 6/12 or 50% of the total monies earned. However there is evidence that during the 2004/2005 year, some practices earned a large number of QOF points in the latter six months and incurred additional staff costs to enable them to achieve the additional points. If this is the case, you may want to allocate a higher proportion of the income to the second six month period to match the additional costs incurred. The split of this income is particularly relevant if you have partners joining or leaving.

Practices with a March year end will be unable to calculate and pay any accrued superannuation until after the tax year. However, practices with say a 30 June 2005 year end which is assessed in 2005/06 will be able to make a catch up payment within the tax year if their accounts and forms are completed in a timely manner.

As superannuation can only be deducted for tax purposes when paid it would seem advisable for practices to pay superannuation based on their best estimate of profits for the year to match their income with the superannuation deduction.

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