

FOCUS ON

How can GPs avoid the new tax charges on their pension?

What changes to pensions tax rules affect GPs?

The amount GPs are allowed to save into their pension each year before incurring a tax charge is being reduced. Any active NHS pension scheme member earning over £110,000 may be affected.

However, it is not the amount paid into the pension that is used to calculate contributions, but the growth in pension from one tax year to the next.

Tapering of this annual allowance began on 6 April 2016 and reduces the standard £40,000 annual allowance for pension contributions by £1 for every £2 earned over £150,000, down to a minimum of £10,000 allowance (at £210,000 income). This new tapering can reduce the standard annual allowance by up to £30,000 (the full £40,000 down to a minimum of £10,000), which in tax terms could mean an additional £13,500 of tax payable.

Until now GPs could elect for the pension scheme to pay any tax charges arising in exchange for a lower final pension (under a mechanism called 'scheme pays'). However, this mechanism is not going to be permitted for tax charges arising from the drop in allowance due to tapering.

How can GPs check if this affects them?

According to the most recent NHS Digital figures on GP earnings, the top 10% of earners will be affected.

Any GP with threshold income (total taxable income from all sources minus pension contributions physically paid) over £110,000 may find their pension growth will incur a charge. If income is below this figure the calculations do not need to be performed.

If threshold income is over £110,000 then the calculated pension growth figure is added to test against the £150,000 limit.

This is mostly like to include GPs who have been contributing to the scheme for a number of years, so their career earnings to date for pension purposes are high. Younger GPs who have experienced a hike in profits for whatever reason (for example a promotion, or low profits the previous year) may also be caught by the rules.

Those with additional income from other sources – for example a profitable rental property portfolio held in their name, dividends drawn from a personal service company, or a salaried position held alongside their practice profits – will also be caught if their total adjusted income exceeds £150,000.

However, it is difficult for GPs to predict their pension growth – it is based on pensionable earnings in the tax year, so the NHS Pensions Agency will only give you the figures after they have processed your end of year pension certificate, which will be past the personal tax return deadline.

What should affected GPs do?

Calculations are key, as you may be able to absorb all or part of the excess with any unused pension relief available from the previous three tax years.

If they have not already done so, GPs should request an annual allowance pension saving statement from the NHS pensions agency. Note that this figure is not available on the online NHS Total Reward Statement website.

For GPs without specialist advisers, details of how the calculations are performed are available on the HMRC website:

<https://www.gov.uk/hmrc-internal-manuals/pensions-tax-manual/ptm056000>

GPs affected by the tax charge should review their pension scheme membership. This is particularly important for doctors who are still making payments into an added years contract or who have additional pensionable work outside the practice, for example locum or out of hours sessions.

Can GPs still reduce their tax bill in January 2018?

As the 2016/17 tax year has already passed there is nothing that can be done now to reduce taxable income.

I have heard of a number of GPs who have decided to stop contributing to the NHS pension scheme as a result of this (and past) pension tax changes. They are then saving the contributions they would have made and putting them towards their January tax bill. This course of action should only be taken with advice from an appropriate financial adviser.



What can GPs do about their 2017/18 allowance?

For the current 2017/18 tax year limiting profits could be wise for GPs who are likely to be affected by the tax charge. For example, I act for a number of GPs who have dropped sessions to mitigate their exposure. Others could reduce profits by spending more at the practice by undertaking repairs at the surgery or investing in capital equipment. As previously mentioned, some GPs are taking financial advice to decide whether to stop their contributions and become a deferred member of the NHS pension scheme.

How does inflation affect pension growth?

On 17 October it was announced that the September CPI figure was 3% – the highest it had been for five years. The September inflation rate is used by the NHS pension scheme to set the revaluation rate each year.

However, the CPI rate applied under HMRC's annual allowance regulations lags the rate used by the NHS pension scheme by one year. This means that in years where the NHS pension scheme inflationary uplift rate is above the HMRC inflationary uplift (which will be years in which inflation is increasing) there will be amplified pension growth for annual allowance purposes.

An annual allowance charge could therefore be triggered simply due to inflation increasing. The carry forward of unused annual allowance helps safeguard against this problem to some extent, but certainly does not prevent annual allowance charges being incurred by members simply due to increasing inflation.

Can you predict the impact of inflation?

CPI varies wildly on a monthly basis, let alone annually. In recent years the September CPI figure has been as high as 5.2% (2012) and as low as 1% (2017).

While the CPI figure cannot be predicted to any level of accuracy, the other variables in the equation can be estimated and controlled by GPs, namely by:

- Determining the amount of unused relief brought forward from the previous three tax years by requesting this from the NHS pensions agency

- Assessing total taxable income to determine whether the £110,000 threshold income calculation is breached
- Considering whether ongoing membership of the NHS pension scheme is in their best interests by discussing this with a financial adviser.

What other advice can GPs seek?

A specialist medical accountant will work with GPs to determine the level of exposure they face in relation to these rules. There is a duty to report any excess of pension contributions over the annual allowance on the annual self-assessment tax return, but the deadline (31 January) falls before the pensions agency can provide these figures. A specialist medical accountant can help GPs determine what figures to include.

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