

financial focus

medden

The specialist provider of holistic financial advice for medics and dentists

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issue 3

Taxing times...

The 2009 budget was all about 'balancing the books', a revenue raiser in times of decreasing tax revenues and increasing government spending; very much a budget of the times.

There were many announcements that took even the most pessimistic forecasters by surprise. Detailed below is a summary of the major changes in personal taxation and how they could impact you.

50% tax rate from 2010. Brought forward by 12 months, and at a higher rate, this tax aims to raise £7bn in additional tax per year. Quite simply this introduces a third band of tax to the existing 20% and 40% bands, having removed the 10% band in 2008 for simplification!

Will it affect you? If your 'taxable' earnings are above the threshold then yes it will, however as always there are ways to mitigate the tax that you pay, even the new 50% tier. These essentially come from 2 main routes; firstly you can reduce your taxable earnings by gifting to charities via Gift Aid, secondly you can reduce taxable earnings via pension planning (see below for new restrictions).

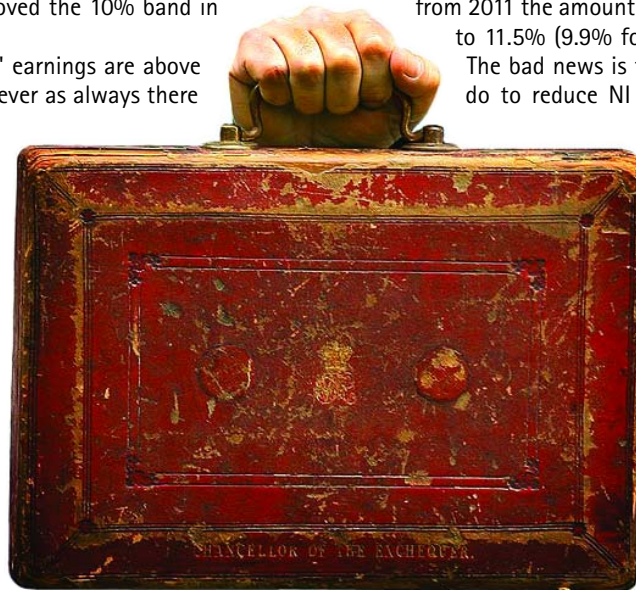
Loss of Personal Allowances from 2010. For anyone with taxable earnings over £100,000 in the tax year 2010/2011 there will be a phasing out of the Personal Allowance, currently worth £6,475 tax free. The phasing out will be a loss of £1 of tax free income for every £2 of taxable earnings above £100,000, for example an individual with £110,000 of income would lose £5,000 of their Personal Allowance.

This announcement both catches more people than the 50% tax rate announcement and imposes a higher rate of tax on those affected. You may have already read it, but this is effectively a 60% tax charge on the income between £100,000 and £112,950, of the '60%' tax 20% is a new charge brought about by the total loss of the nil rate Personal Allowance. To demonstrate this, concentrating solely on the income tax charge for the band of earnings between 100,000 and £112,950, the tax charge in 2009 would be £5,180 (40%) this will increase to £7,770 (60%) in 2010.

The same two tax reducers mentioned previously, Gift Aid and pension planning, can again be used to mitigate this new introduction. By using either of these routes, or a combination of them, an individual can donate/invest £12,950 at a net cost of £5,180, a 250% return for either you or your chosen charities.

Increased National Insurance. Not a tax as far as HMRC see it, but NI rates have steadily risen over the last 3 budgets by increasing the level of income that is assessed to the 'middle band of earnings' and from 2011 the amount of NI charged increases by a further 0.5% to 11.5% (9.9% for members of the NHS Pension scheme).

The bad news is that there isn't a great deal that you can do to reduce NI contributions, best to console ourselves that the increase is to pay for the NHS and other social welfare!



Finally, in a complete surprise to many, the budget announced changes to tax relief on pension contributions to those whose earnings exceed £150,000, the same threshold as the 50% tax rate. From 2011 anybody with earnings between £150,000 and £180,000 will see tax relief reduce; phased from 50% to 20%, earnings over £180,000 will result in tax relief being at 20% only

In a measure to prevent those individuals who fall into this area maximising pension contributions

before the rules are introduced a new limit on pensions contributions has been introduced for this and the next tax year. A ceiling on contributions of £20,000 now applies if your earnings exceeded £150,000 in either of the last 2 tax years. or are expected to do so this or the next tax year.

Capital Gains Tax - the gold at the end of the rainbow?

Whereas income tax rates now range from 20% to 50% (60% on a small slice of income) capital gains tax is fixed at 18% for all. This rate only applies on gains in excess of the £10,100 annual allowance granted to all tax payers; there are many ways to utilise this allowance, particularly with investments.

MedDen would welcome the opportunity to discuss with you how you can use your CGT allowance as well as how you can mitigate your income tax bill.



For more information please contact: **0113 2470088** www.meddenifa.com

Employing your spouse

This used to be a bit of a ruse as all doctors and dentists employed their spouses ostensibly to deal with incoming telephone calls and/or paperwork. The Inland Revenue (as they were then) pretty much closed this loophole 10/15 years ago.

Now, to pay your spouse the work salary needs to be 'wholly and necessarily for the business undertaken'. Furthermore, the level of pay needs to be commercially justifiable. If you undertake any administration at home that your spouse could do then employing your spouse has some very beneficial aspects, namely a saving on tax and national insurance.

How much should you pay? Salary must be compliant with National Minimum Wage regulations (£5.80 per hour) and be justifiable; bearing in mind that the nature of the work undertaken requires a high level of diligence, plus the irregular hours, an hourly rate in the region of £10 - £15 per hour could be appropriate.

Tax and National Insurance - any salary will naturally be treated as a business expense and as such will come off your income assessable to tax and national insurance. The income for your spouse will be assessed for tax and national insurance in their name. An income under £5,720 is free of both tax and national insurance; if this salary is in addition to other income earned by your spouse then tax may be payable, but there still won't be any national insurance obligations. An income over £5,720 will attract national insurance contributions from both the employer and employee - this will probably negate any savings that you had hoped to achieve, however, the use of salary sacrifice, discussed later, could provide a solution.

As an example, Dr A employs his wife as a personal assistant; last year Dr A's gross income was £120,000 against which he contributed £6,190 to the NHS Pension. If Dr A pays his wife a salary of £5,500 then his tax computation would be:

	Dr A only	Dr & Mrs A
Gross	£120,000	£114,500
Dr A Pension	£6,190	£6,190
Spouse Salary	£0	£5,500
*Tax	£35,455	£33,255
*NI Conts	£4,960	£4,905
Net	£73,395	£70,150
Net Increase		£3,245

**assumes no other income for Mrs A and uses 2009/10 tax rates and personal allowances*

Sacrifice Salary?

If justifiable, paying an income over £5,720 can be an effective way to reduce your personal tax burden (especially with the tax changes referred to overleaf) and a very beneficial retirement planning route.

The retirement planning would be achieved by the increased salary been immediately sacrificed by your spouse in favour of a personal pension contribution; this negates any tax or national insurance being chargeable to you or your spouse.

The benefits of salary sacrifice can be demonstrated by using the above example and increasing Mrs A's salary to £11,500, with or without a £6,000 salary sacrifice.

Salary sacrifice	Without	With
Gross	£108,500	£108,500
Spouse Salary	£11,500	£11,500 (-£6,000)
Dr & Mrs pension	£6,190	£6,190 (+£6,000)
*Tax	£31,860	£30,855
*NI Conts	£6,220	£4,845
Net	£75,730	£72,110
Net Increase		(£3,620)

The 'loss' of net income using salary sacrifice, £3,620, is offset by a £6,000 pension contribution being made in Mrs A's name. This has additional benefits in that it provides a pension for Mrs A in retirement that in itself can utilise tax savings over having all pension income in Dr A's name alone.

- *Paying a salary to your spouse can still be a permissible expense*
- *Savings against tax and national insurance*
- *Salary sacrifice can increase these savings*
- *and can also address some of the usual imbalance in retirement income*

In order to establish if paying your spouse is a viable option, and to consider the use of salary sacrifice, contact MedDen or complete the reply card enclosed.

It's New!

As part of our ongoing service to the medical and dental professions, MedDen have recently relaunched their web site.

The new site has been developed specifically for our client base and covers the areas that we believe are important.

Whilst dealing with the personal issues of life cover, mortgages, income protection and individual savings and retirement planning, considerable attention has been given to tax issues, NHS benefits and practice protection. The content has been designed to assist the self employed practitioner or the employed, in ensuring that they receive the correct information in relation to their practice or employment needs, plus an extensive enquiry options form to allow you to contact us on a variety of areas. Tax planning information along with NHS information is updated on a regular basis to ensure that the service we provide is current to changes in these areas.

To see more about MedDen or to arrange a consultation with one of the partners or advisers, visit our web site at www.meddenifa.com



NOTICE BOARD

Cash ISA

with a potential return of 6.5%?

Offered as a Structured Product - see the article on the back page - there is a limited offer to access a cash ISA (or even direct investment) into an investment that pays out the equivalent of 6.5% per annum (non-compounded) if the FTSE 100 rises over a 2, 3, 4 or 5 year period.

For example, if the FTSE 100 has risen by the second anniversary of the investment it will mature paying your initial investment plus 13% growth. If the FTSE 100 doesn't grow over any of the periods mentioned it will return 100% of the capital invested after 5 years.

The investment is also available for Cash ISA transfers.

New faces at MedDen

This year has been a busy year at MedDen. In a year when economic news has been gloomy and many other firms within our industry are shrinking, we have taken on four new advisers. Richard Baxter, Paul Hainsworth, Rob McQuire and Mark Richards have joined us from Harrogate IFS, Standard Life, HSBC and Wesleyan Medical Sickness respectively adding to the experience of the partners. Each are committed to maintaining the professional high standard of independent advice that is offered by MedDen.

Richard 07825 730318
Mark 07814 244897

Paul 07794 352392,
Rob 07540 103765

Talks and Seminars

In the past year MedDen's partners have delivered a number of talks and seminars throughout the country. Many more are already scheduled.

Various departmental, GP Surgeries, BDA, LDC and Post Graduate groups have benefited from their medical and dental focused knowledge of the ever changing financial services marketplace. Areas covered in the presentations have included the changes brought about by the budget, changes to the NHS Pension, strategies for converting to private practice, and effective investment planning to name just a few. Talks can be structured around the individual group.

Foundation Dentist Courses have also been run with very positive feedback. The content of the course covers;

- Taxation and how it affects the individual
- The NHS Superannuation scheme and its component parts
- The need for financial protection
- Pension and investment opportunities
- Mortgages and how best to fund the purchase of property
- Tactics for repaying loans

MedDen offers nationwide coverage, and so if you are responsible for organising talks for your group and would like to book a presentation from MedDen you can register your interest using the enclosed pre-paid reply card or call the office on 0113 2470088.

Is the NHS Pension safe?

There is an increasing anxiety about the safety of Public Sector pension schemes, including the NHS Pension Scheme. Despite the DH having only just completed a review of the scheme it is only a matter of time before the thorny subject of another review is tackled.

In the current economic environment, many are clamouring for an end to the 'open chequebook' that final salary pension schemes provide. It is becoming more than idle speculation to suggest that the NHS Pension Scheme cannot continue in its current guise.

A recent audit of the public sector pension scheme reported a combined liability of £1,177 billion pounds, equivalent to 85% of GDP. The report authors (BNAC) suggest that this is 3 times the liability faced by countries such as the USA or Canada.

So is your NHS Pension safe? At the current time it is; moreover, your accrued benefits are totally safe, but it would be prudent to investigate the alternatives to complete reliance upon the scheme.

Mortgages

At MedDen we're not content with being 'just another mortgage broker', so we ensure that we offer a very unique bespoke service that is truly 'whole of market'. Many IFAs will only offer the mortgage deals that are available to them and offer a commission, whereas, we search through every mortgage deal to make sure that you end up with the mortgage that best suits you.

We also have relationships with banks that do not have a high street presence or advertise in the mainstream. What this means is that you are able to access mortgages the wider UK mortgage buyer is unable to, and with deals such as a 90% first time buyer 2 year fixed rate mortgage with no set up fees you can see why you could be better off speaking to us about any property purchase you may be considering.

This publication is for guidance only and individual financial advice should also be sought before making any financial decision.

References to tax are based upon our understanding of tax law and HMRC practice as at Sept 2009 and are subject to change, tax relief is based upon individual circumstances.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

For more information please contact: 0113 2470088 www.meddenifa.com

Changes to ISAs

ISAs are 'tax-free wrappers' where you can save cash or invest in stocks and shares. This means that you do not pay tax on the income you receive from your ISA, or pay tax on the interest your savings earn - no matter how much your investment grows or how much you withdraw in any financial year.

Each year, you have a tax-free allowance of £7,200 and this may be all be invested in a Stocks and Shares ISA or up to £3,600 can be invested in a Cash ISA.

From the 6th October 2009 for those over 50 the allowance rises to £10,200 and from the 6th April 2010 this extends to all ages.

Benefits of ISAs

You don't pay any income tax on your investment growth.

You don't pay any capital gains tax from the money arising from your investments.

If you hold an ISA you don't need to record this on your annual tax return.

ISAs are transferable to new providers.

You can take an ISA out at any time though a notice period or restrictions may be put in place depending on your ISA fund manager's rules.

Stocks and Shares ISAs

These are generally used for long term savings in stocks and shares. Whether you wish to invest all your money in stocks and shares or wish to make a cash investment, you must invest all your money with the same ISA fund manager - so it is important that you find the ISA most suitable for you. You must be a UK resident aged 18 or over to take out a Stocks and Shares ISA.

Cash ISAs

These are generally used for short term saving. You can guarantee quick access to your money and make withdrawals at any time, though you need to check policy restrictions and notice periods, as these tend to vary between ISA providers. You must be a UK resident aged 16 or over to take out a Cash ISA, limits currently being £3,600 per annum, rising to £5,100 from 6th October 2009 for those over 50, then available to all from 6th April 2010.

Please note: all investment returns are determined by performance, marketing conditions and overall economic factors which may not be repeated in the future. Therefore, past performance is not necessarily a guide to future returns.

Safety, Growth & Tax Efficiency; El Dorado?

You'd be forgiven for thinking that safety, growth and tax efficiency are strange bedfellows, but they can be achieved within a structured product.

A structured product is essentially a combination of two component parts, a corporate bond and a call option. The corporate bond provides you with a capital guarantee (subject to the bond issuer repaying the loan) and the call option provides you with the growth

Security - achieved by the issue of a corporate bond (institutional debt) which repays a known amount at the end of a known term, i.e. 100% of your original investment.

Growth - achieved by a call option, this provides the amount of return based upon given circumstances, i.e. 100% of the growth on the FTSE100 index after 5 years.

Tax Efficiency - a structured product can be held within an ISA for protection against personal tax or can be held directly and be assessed against Capital Gains Tax (£10,100 growth tax free).

In these low interest rate times a structured product could provide you with the capital security of a bank account but with potentially a greater return than the same.

Typically there are more than 50 of these products available at any time, contact MedDen to see if there is one that meets your needs.

Investment opportunity

We mentioned that MedDen are now working in conjunction with overseas property experts *A World Overseas* in our last newsletter. But just in case some of you missed it we have included the advert again.

A World Overseas are able to locate and help you buy your dream holiday property anywhere in the world. But they have a number of developments in Crete that have been very well received by many of our clients.

For more information call your adviser or call our office on 0113 2470088.



Invest just £22,000* in your own private Mediterranean villa and pay nothing else until 2012**



This is a stunning project in Rethymno Crete, offering the ideal combination of excellent growth potential and peace of mind. Invest now and pay nothing else for up to 3 years!

Nothing to pay during the one year build period and, in the 2 years following completion, villas are managed in a rental scheme with owners able to enjoy their property for 6 weeks per year. All mortgage costs (capital & interest) are covered in this period.†

From year 3 onwards properties can be placed with the onsite rental Management Company and benefit from projected net returns of between 5-7%, making this a strong ongoing investment.

Contact your adviser for further information

* Based on 10% deposit and subject to status and Euro/Sterling currency fluctuation. ** Subject to project completion date. † Rental Guarantee will cover monthly mortgage payments on a 25 year term



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