Honey Barrett

Chartered Accountants

MANAGING MONEY FOR GP LOCUMS

A Locum's Guide to Finance

In association with National Association of Sessional GPs

This booklet is a compendium of articles published in the NASGP magazine over the past few years updated to July 2013.

The information is not to be used without taking professional advice; the law changes frequently and the author will not be responsible for any action taken as a result of any comments in this booklet

About the author

Liz Densley is a longstanding director with Sussex Chartered Accountants, Honey Barrett and heads up services to medical professionals with co-Director Abi Newbury and tax manager Emma Gooch. A founder member of aisma (the Association of Independent Specialist Medical Accountants), Liz has been Secretary of the association since its inception.

Contact: 01424 730345 or liz.densley@honeybarrett.co.uk
Or visit www.honeybarrett.co.uk

Win with us!

Honey Barrett is celebrating its 50th Anniversary this year and in recognition of the occasion we are offering all new medical clients in 2013-14 the chance to be entered into a draw for a £500 voucher to be used against accounts and tax return services. (see website for terms and conditions)

With thanks to

Paul Gordon of MacArthur Gordon, specialist financial advisers to the medical profession, for his contribution in Chapter 6.

Contact 01303 266258 or paul@macarthurgordon.co.uk
Or visit www.macarthurgordon.co.uk

MANAGING MONEY FOR GP LOCUMS

Contents

1. SETTING UP AS A LOCUM

Each year a lot of new NASGP members will be moving on from being an employed GP registrar and branching out on their own as locums – or as a mixture of locum/salaried work. This entails a whole new way of thinking about work and you need to make the mental change from employee status to running your own small business.

Here's a brief summary of important first things to consider. It is not an exhaustive list. Start off as you mean to go on – there are onerous penalties for getting things wrong or leaving them too late.

- Make sure you get your P45 from your employer. You do not need to send it anywhere unless you obtain another employment– but you will need it for your tax return – so keep it safely.
- Register with HMRC for self employment and Class 2 National Insurance. See Revenue website http://www.hmrc.gov.uk/sa/register.htm or consult a professional adviser.
- Record keeping:
    - Retain receipts for all business expenses, for example:
        - Motor expenses
        - Telephones/internet access
        - Professional subscriptions
        - Training course/technical books etc
    - Keep a mileage log – you are running your business from home, so record miles from your home to each individual place of work. It is not quite the same if you are doing a long term locum, that might make it harder to argue that the surgery is not your place of business,
    - Keep copies of invoices issued
- NHS pension scheme
    - Locums may pension their income through the NHS scheme and the practice will pay the 14% employer contribution
    - You should get a 'pack' when you register with your primary care support unit and they will advise on your initial tier level.
    - You must complete forms Locum A & B on a regular basis and send them to the primary care support team promptly – late applications are not permitted
- Consider business entity:
    - If you wish to be a member of the NHS pension scheme, then simple self employment is most beneficial.
    - If you do not wish to be a member of the NHS scheme and are prepared to forego the 14% that the practice will contribute, then it may be possible to save money by using a Limited Company. You should not opt out of the NHS scheme without proper advice. It is rarely beneficial.
- Save for your tax, national insurance and student loan repayments as you go.
    - Your professional adviser can estimate your tax liability for you.
    - If 'going it alone' you will find some assistance on the HMRC website.
    - There is no standard percentage to save – it will depend on your circumstances.
        - If you have a salaried appointment using your basic rate band, then you may need to allow for 40% tax, 9% NIC and 9% student loan repayments
        - If all your work is freelance in a tax year, then you can save less as a % because you will have your personal allowance and basic rate band available.

        Saving 30% should cover tax/NIC/student loans if your income is less than £50k, increasing to 37% at £100k.
        - Calculations assume no child benefit tax.
    - Your first tax payment, if you are starting in August 2013, will not be until January 2015 – at which time you will pay your 2013-14 liability plus half as much again as a payment on account for 2014-15. This will be a scarily large figure if you haven't been saving.
- Consider if you need to defer Class 4 National Insurance contributions where you have an employment and self employment in the same year to avoid overpaying. (Again forms available on HMRC website or ask your professional adviser)
- If you only have a small amount of student loan outstanding consider whether you need to pay it off before you do your tax return, rather than overpay and have to get some back again. The refund is not a fast process!
- Tax return deadline:
    - If you are issued with a return for 2012-13, you will need to submit it online by 31st January 2014. Normally if you have had no other income, and you start self employment August 2013, your first return will be for 2013-14, which must be submitted by 31st January 2015.
- Do you need a professional adviser?
    - If you are worried about whether you are going to get it right, make the right claims for expenses, meet deadlines, comply with all your obligations as a self employed person – then you need a professional adviser
    - If you want to do it yourself, be prepared to spend a lot of time researching to make sure that you don't accidentally get something wrong. New penalties for 'careless' returns are expensive. Consider if the time spent might be better spent practicing medicine and using the money earned to pay a (tax deductible) adviser.
- How do you go about finding the right accountant?
    - Look for someone who is not only professionally qualified but also experienced in dealing with doctors and the complexities of the NHS pension scheme
    - Ask for recommendations from colleagues and experienced GPs
    - Look on the **aisma** website (the association of independent specialist medical accountants – www.aisma.org.uk) for specialists in your area
    - Consider if you are happy with an email/post/phone service or if you will need regular face to face contact with your accountant.
    - Meet or speak to the person you will actually be dealing with – it needs to be someone who not only has the technical knowledge, but that you feel comfortable with.
    - Ask for a fee quote and make sure you understand what it covers.

2. RECORD KEEPING

Having many years of stress of tax deadlines, I've been considering how to make next year less painful – both for me and my team, and also my clients. What sort of accounting records do I come across for small businesses (including self employed doctors)?

None:

A note of gross income if I am lucky and an expectation that we'll work out (ie guess) the expenses.

Paper:

This can run a full range from a fully analysed and reconciled cash book, to a neat list in an exercise book, to one figure of total income – and neatly written out, analysed expenses to odd scribbles (often illegible) plus a screwed up pile of receipts.

Computer records:

Spreadsheets:

These can mirror paper records – they can be neat and organised with proper totals or they can be used like scraps of paper with odd figures all over the place, 'totals' that are not actually the total of the column intended, and lots of missing things.

Basic programs: like Microsoft money, or an old version of Quicken.

Commercial book-keeping programs like Sage or Quickbooks

Specialist programs like Penny Perfect or LocumOrganiser.com

The computer programs can be written up knowledgeably and accurately – or they can be a nightmare.

Which is best?

That will depend on your skill level and enthusiasm for keeping records – badly written up records – whether manual or computer based are generally harder to deal with than just having all the bank statements, cheque stubs, paying in books and a pile of receipts.

Whilst it can be quite fun to achieve order out of the chaos of screwed up bits of paper (sad person that I am!) accountants are expensive people to use for that detail of work and it is not necessarily the best use of your money.

The system that makes life easiest for the locum is the system that will be kept up to date – and that in itself tends to make it a better system. It is much easier to record income and expenditure at the time, than have to face writing up months or even a year at one go.

3. THE TAX SYSTEM

Time limits for the newly self employed: let's assume on 1st August 2013 you leave the safety of a monthly pay cheque and PAYE and become self employed as a locum. This means you are starting your own business and you need to keep paperwork under control from the start or it will become one of those things you cannot face – which can lead to interest, surcharges, penalties etc in connection with tax, loss of pension, and personal financial embarrassment.

Put the following dates to make sure you don't miss anything:

1. Day 1: Tell the tax office you are self employed and set up payment of your class 2 national insurance contributions. Form CWF1
2. Decide on your method of bookkeeping (paper, spreadsheet, accounting software package) and get it set up.
3. Diary: set up a diary to control your work and to make sure that you bill a practice promptly after the work is done – not forgetting to add mileage charges where these have been approved.
4. Get form Locum A signed by the practice as soon as you have completed the work.
5. End of first calendar month (and every month thereafter) complete the month end pension forms and send them in with your cheque for pension contributions.
6. Check that your Class 2 national insurance contributions are going through your bank each month.
7. 31st October 13 – if you were issued with a tax return for 2012-13 and want to submit it on paper, this is your deadline.
8. 31st January 14 – this is the deadline for on-line filing of the 2013 return – if you have been issued with one or if you have a source of income that you need to report. Note that your first return for your self employed work will be 31st January 2015.
9. 31st January 14 – this is the due date for any outstanding tax for 2012-13. This may give rise to a payment on account for 2013-14 if the total tax due for 2012-13 exceeds £500.
10. 5th April 2014 – this is the end of the tax year – consider some year end tax planning before this date.
11. 31st July 14 – if you had to make a payment on account in January, a second one of the same amount will be due now.
12. 31st October 2014 – deadline for a paper return showing your first self employed income.
13. 31st January 2015 – deadline for on-line filing of return showing your first self employed income –
14. 31st January 2015 – tax bombshell time when you must pay 2013-14 tax and Class 4 national insurance plus 50% to include the payment on account for 2014-15.

UNDERSTANDING TAX PAYMENT DATES WHEN YOU FIRST START SELF EMPLOYMENT:

Assume a start date of 1 August 2013.

First tax return is 2013-14.

You will receive a return form in April 2014 – which must be submitted by 31 October 2014 (by paper) or 31 January 2015 (on-line).

First tax is due 31 January 2015 when you will pay tax on self employed income from 1 August 2013 to 31 March (or 5 April) 2014 (plus any tax unpaid on your previous employment, plus tax on any other income – such as rental income, investment income etc).

First payment on account for 2014-15 is also due 31 January 2015 – this is 50% of the liability for 2013-14.

2nd payment on account is due 31 July 2015 – same as the first payment on account. If by then you realise that 2014-15 income is going to be lower than the previous year, you can reduce this amount to the actual amount due for the year (taking account of the payment already made).

Balance of 2014-15 will be due 31 January 2016 – if income in year 2 is higher than in year 1, expect this to be a high payment too.

While income is increasing January tax due will be higher than July. Once income levels off the two payments will become more similar.

'Tax' in this context is tax, class 4 national insurance and student loan repayments. Depending on levels of income before starting self employment you may be eligible to defer class 4 national insurance in the first year to avoid paying too much.

Example:

Let us assume that a locum has total earnings of £40,000 for the period 1 August 2013 to 5 April 2014 and £60,000 for the year ended 5 April 2015. Let us also assume that the tax and NIC has been calculated at £10,000 and £18,000 respectively. The tax payment dates are as follows:-

31 January 2014 First payment on account for 2013-14 – no self employed earnings in previous year – thus	NIL
31 July 2014 Second payment on account for 2013-14 – as above	NIL
31 January 2015 Balance of 2013-14	10,000
First payment on account 2014-15 (one half)	5,000
	£15,000
31 July 2015 Second payment on account 2014-15	£ 5,000

31 January 2016 Balance 2014-15 (£18,000-£10,000)	8,000
First payment on account 2015-16 (1/2 x £18,000)	9,000
	£17,000
31 January 2016 Second payment on account 2015-16	£ 9,000

Until income flattens out, locums should be aware of the tax “bumps” occurring in January.

4. NATIONAL INSURANCE CONTRIBUTIONS

There are 4 classes of National Insurance contributions:

Class 1 – payable by employees and employers – paid via PAYE – so you earn your pay net.
Class 2 – payable by the self employed (flat rate) – payable on the issue of a bill or by direct debit
Class 3 – voluntary contributions (unlikely to be relevant to doctors generally)
Class 4 – payable by the self employed (profits based) – payable via your self assessment return.

So a doctor with a salaried appointment and some freelance work could be paying Classes 1, 2, and 4.

For 2013-14:

The rates for Class 1 (just for the employee, and assuming a member of the NHS pension scheme) are:

- Up to £109 per week – 0%
- From £109 to £149 per week – 0%
- From £149 to £770 per week – 10.6%
- From £770 to 797 per week – 12%
- Over £797 per week – 2%

Class 2 contributions are £2.70 per week

Class 4 contributions are:

- Up to £7,755 pa – 0%
- From £7,755 – £41,450 – 9%
- Over £41,450 – 2%

For example:

A locum GP earning net self employed income of £70,000 would pay:

- Class 2 of £140
- Class 4 of £3,604

That's nearly £4,000 of contributions which earn you very little by way of benefits other than a basic state pension – it's really just another tax.

To make it worse, if you have both employment earnings and self employed earnings you are likely to pay too much National Insurance – but unless you ask for it back, no-one is likely to offer you a refund (although to be fair the Revenue have been picking up overpayments where there are multiple employments in recent years). We've found that even otherwise excellent accountants can miss this, unless they specialise in doctors and come across it regularly. We recently obtained a refund of over £11,000 in overpaid National Insurance contributions for a new doctor client.

Where you know before submitting your tax return that you are likely to pay over the limit, then you can ask to defer the Class 4 NIC and pay this separately after your return has been completed when you know what the maximum will be.

Similarly if you have two employments and risk overpaying, you can apply to defer contributions on one of them.

This will also apply to doctors in their first year of self employment – where they are employed for the first half of the year and then self employed for the second half – so it is something to always consider on your first tax return, if not before.

There is no time limit for claiming back overpaid National Insurance where you had two jobs or where you had both employment and self employment – so even if it's a long time ago, provided you can find proof of your income and contributions paid, it is well worth revisiting and making a claim.

5. BUSINESS STRUCTURES

Banding together …………

Many locums feel isolated working on their own – so what alternatives are there?

Theoretically groups of locums could set up a partnership where they carry on a practice in common with a view to profit. This doesn't usually happen in practice because usually each locum wants to keep what they earn rather than share it.

Others set up a local group or Chambers where they can share the administrative burden and provide other support to each other.

A third alternative would be to set up a services company as a business itself that provides the 'back office' support and leaves the locums free just to practice medicine.

These last two could provide exactly the same support to the locums – but the tax consequences are very different.

Where a group band together purely to share costs and any surplus would be returned to members of the group (and equally any overspend would have to be met by members of the group) then this is not a separate trade for income tax purposes or indeed VAT purposes – it is merely a cost sharing exercise and each individual would offset their share of the costs against their own income on their tax return. Employing administrative staff in this situation can be problematic with joint contracts of employment required to make sure that one locum is not providing services to another.

Where a trading company is set up (or a partnership or limited liability partnership) to provide the service and it can make profits which it reinvests in the business or pays out as dividends, then that company will be trading in its own right and subject to corporation tax on its profits – and should it make a loss, the loss can only be relieved against the company's future profits and not against the income of the individual locums. The services that this company supplies to the locums are potentially subject to VAT (if the turnover exceeds the VAT registration limit of currently £79k) which gives rise to an increase in costs to the locums which they cannot recover as they are not VAT registered, because the supply of medical services by the locums is not a VAT'able supply.

It is possible to set a company up as a mutual trading association so that it does not pay corporation tax on its surplus nor get any tax relief on its losses, but the VAT problem will still arise.

Capital allowances can be obtained on the purchase of capital equipment – such as office furniture and computers.

The cost of setting up a website would normally be an ordinary revenue expense, unless the site is set up to achieve sales – perhaps by having an on-line booking system – in which case that could be treated as capital as being of enduring benefit to the business – and capital allowances claimed.

It the company employs staff, then it will need to set up a PAYE scheme and will need to deduct tax and national insurance before paying them. There are very strict rules and time limits for dealing with payroll with automatic penalties for getting it wrong or late. If the group is not big enough to employ someone with sufficient payroll knowledge, this could be a service to outsource to a bureau.

The directors of the company could be paid directors' fees for their work. This would be subject to PAYE and you need to consider the tax and national insurance position – it can get expensive in terms of the employer contribution for national insurance.

A cheaper way of getting money out of the service company can be by way of dividend. Dividends must be paid per share held – so you cannot pay differing amounts to different shareholders easily unless different numbers of shares are held. Dividends are subject to extra tax in the hands of higher rate taxpayers only – so part-timers may well not have any further tax to pay on a dividend.

There is no 'one size fits all' right answer to how you should set up your group. Often it will start as an informal cost sharing association and build into a business in its own right over the years.

6. FREELANCE INCOME THROUGH A LIMITED COMPANY?

Is this an option to consider?

You can potentially save tax/NIC by putting freelance income through a limited company **however** you are not permitted to pension such income through the NHS scheme.

Up until April, it was a no-brainer – using a limited company meant you lost the 14% that the PCT paid towards your pension. Now that the practices are responsible for paying the 14% - and are using that to negotiate fees downwards (so their net costs don't change), some of that advantage may have been lost. However you should not underestimate the value of the NHS pension scheme.

Let's assume a worst case situation, where a practice will pay you the same amount whether you are in the pension scheme or not. As a self employed locum earning £80k a year after expenses (before deducting superannuation), you'd be left with £44,128 in hand after superannuation/tax/NIC.

Earning the same gross through a company and paying yourself the whole of the profits by way of low salary/high dividend (but no pension contributions) would leave you £58,257 in hand.

This means in cash terms you'd be £14,129 better off by using a company – but is that worth the loss of pension entitlement? I put this question to Paul Gordon, an NHS pension specialist with specialist financial advisers MacArthur Gordon.

He commented:

In the current climate it is certainly tempting to have greater funds in your pocket as opposed to pension benefits in what could well be a number of years.

However, before rushing to set up limited companies or simply opting out of the pension scheme it is worth being aware of how beneficial the NHS Pension Scheme is.

As a member of the 1995 or 2008 Section you will currently have a Normal Retirement Age of 60 or 65 and at that point will be entitled to an index-linked pension for life that in the event of your early demise would also provide an income to your spouse and potentially dependents typically until they are aged 23.

Under the 1995 Section you automatically have an entitlement to a lump-sum which remains tax-free and can actually be increased by commuting income at a ratio of 1:12, which is also the case with the 2008 Section.

There is likely to be a change of pension scheme for all members who were under the age of 46.5 as at April 2012 with the change to a Career Average Revalued Earnings Scheme and a Normal Retirement Age linked directly to State Retirement Age. It is important to note that under the details current outlined, all benefits accrued to April 2015 will be protected.

With that in mind, is opting out of arguably the best pension scheme you will have access to a good idea? In the event of death or ill-health, a deferred member or their family are likely to receive potentially less benefits than a current member of the scheme.

Tax efficiency is certainly something more and more GPs are aware of regarding pension planning. Both the Annual and Lifetime Allowances are to reduce from the start of the 2014/2015 Tax Year which could have implications for a number of sessional GPs particularly those with long-standing careers or significant superannuable income. But the payment of tax alone is not a reason in itself for opting out.

It has never been more important to be aware of your current pension position. It is essential to organise an annual statement confirming currently accrued benefits, membership to date and dynamisation figures. You will then be able to check the information held is correct to date along with calculating your position against the Lifetime Allowance.

The most important element in all of your pension planning is you (and your family). Please do not make decisions based on your friends' circumstances, make sure any changes are based purely on your situation and plans.

7. CHILD BENEFITS

This new tax will apply to 'couples' – married, civil partners or just living together as married or civil partners, where one of the couples claims child benefit and where one of them has taxable income in excess of £50k.

Where one of the couple has taxable income in excess of £60k, then the whole of the child benefit will be recouped.

Income for this purpose is after deducting pension contributions and gift aid payments – so for someone who is borderline, the timing of pension contributions or gift aid payments might make a substantial difference.

The highest income partner is the one on whom the tax falls, regardless of who claims the benefit. For income between £50k and £60k – for every round £100 of income your tax is equivalent to 1% of the child benefit. So for example:

Income £52k - is £2,000 over the £50k limit – i.e. 20 x £100 – so the tax is 20% of the child benefit received.

With enough children the effective tax rate can exceed 100%!

Note that if each of a couple have £49,999 of income (a total of £99,998) no tax is payable; but if one is a stay at home carer with no earnings and the other works, then income of £50,000+ produces a tax liability. (This might encourage more job sharing among lower earning doctors perhaps)

It is irrelevant whether the child is yours – the only consideration is whether you are married/civil partners or living together as such. Equally, if you are separated in circumstances that are likely to be permanent, or legally separated or divorced, then your tax is not affected by the child benefit received by your former partner.

This new tax started from 7th January 2013 and theoretically the situation is reviewed each week – so if someone moves in with a new partner, they will need to consider if that will give rise to a tax liability on them – despite them probably having no share of the benefit received.

Thus your accountant is going to have to ask some potentially uncomfortable questions – such as does your flat mate have children and are they just a flat mate or are you living together as civil partners? Or, to a known single client, have you lived with anyone at any time as man and wife or as civil partners during the last year and if so was your 'partner' claiming child benefit?

Even if we know you are a settled married couple with children – where we only act for one of you, we'll need to know which of you is the higher earner. I suspect if I asked most of my self employed clients what their taxable income was, 99% would not know accurately – so will people know which is the higher earner and thus the one liable to tax? If you have more than one partner in a particular week – then it is only the highest earner who is taxed!

Where you are sure that one of you will have income in excess of £60k, then it is simpler to stop claiming child benefit – by electing not to receive it. If it subsequently turns out that income is less than £50k, then the election can be reversed. Note that it is the person receiving the benefit who has to make the election – not the person paying the tax.

Please note though, that it is important to actually claim child benefit in the first place and then elect not to receive it. If you don't claim it at all, then you lose out on the National Insurance credits.

All in all a remarkedly complex way of preventing higher earners from getting Child Benefit!

8. PENSIONS

Readers will all be aware that from 1st April the rules changed such that the practices are now responsible for the payment of employer element of locums' pension contributions.

- Locum forms A and B have been amended . The new forms clearly distinguish between the actual fee and the pensionable pay and the employer contributions – see http://www.nhsbsa.nhs.uk/2529.aspx.
- GMS Practices will receive an extra 0.15% funding intended to reimburse them for this additional cost; PMS practices will normally get nothing.
- Locums will need to collect the employer contribution from the practice and **MUST** pay this over to the local area team succeeding the PCT along with the employee contribution. Cheques after 31st March need to be made payable to The NHS Commissioning Board (as the NHSCB is now the employing authority for GPs in England)

The funding practices receive will be based on practice list sizes, not on historical costs of locum usage. Thus some practices will win (a little) and some will lose – potentially much larger amounts.

Practices are already facing reducing incomes and increasing costs and thus in many cases they will be looking to reduce the gross costs of locums. This could lead to:

- Favouring locums who have left the scheme (such as those who have taken 24 hour retirement)
- Favouring locums who operate through limited companies (you cannot pension this income through the NHS scheme)
- Negotiating harder on rates that they are prepared to pay (market forces will determine whether this is a practical answer).
- Where locum usage is high, practices may consider taking on flexible part time salaried doctors (paid at a much lower rate than locums)

From the locum's point of view

The pension rules have not changed in that if you are pensioning your income you **must** pension all NHS income and not just the bits you choose. The rules are slightly contradictory, in that late payment of pension contributions is not allowed either, so up to now, some locums have circumvented this by just not pensioning some income until it is too late for it to be accepted.

Under the new system, you will have to advise the practice whether you belong to the pension scheme or not, and then if you are, when they pay you the 14% (along with your fee), you are under a **legal obligation** to pay this over.

Locums will need to be very clear in their paperwork and will probably need to re-design their invoices, ensuring that they are prompt in paying pension over to make sure that they do not accidentally commit any offence.

Be aware that tier rates have increased from 1st April, so the employee contribution will be higher too.

Do not be pressured into leaving the pension scheme without taking expert advice. Even leaving for a short while can have adverse consequences for you. Despite increases in pension contributions payable, there are only very rare cases when leaving the scheme is the best course of action.

9. SALARIED AND LOCUM

More and more GPs are now taking part time salaried positions and 'topping up' with locum work. This can complicate your tax and NIC affairs. So what do you need to look out for?

1. Your tax code. Normally personal allowance will be on your code (unless your taxable income exceeds £100k in which case it rapidly diminishes down to zero at £118k).

2. If your personal allowances and your basic rate band is used against your employment income, then that might leave your locum income taxed at 40% (depending on the level of your salary clearly). In this situation, if you have superannuation contributions, 40% tax, 2% national insurance (or more, see below) and student loan repayments at 9% it will feels as if it is not worth the extra effort to do locum work – but you do need to bear in mind that this is your 'top slice' and that proportionately less will be deducted from your salaried position.
3. It is easy to overpay national insurance where you have both employed and self employed income. You are entitled to apply to defer your Class 4 NIC in this situation – so instead of paying full Class 4 (at 9% on income between £7,755 and £41,450) through your tax return, you can pay the correct balance due – taking account of the Class 1 payments made through your salaried work – after your return has been submitted.
4. Claiming for expenses: the rules are different for employed and self employed;
    a. Training costs – can be claimed by the self employed for updating existing knowledge. It cannot be claimed by the employed (except in the rare circumstances of a formal speciality training position) – so encourage your employer to pay, even if it means it comes out of your next bonus or pay rise.
    b. Motor expenses – home to work cannot be claimed by an employee. If a locum business is run from home, then travel from that point to each individual practice is a business journey. Note that this may not apply to long term locums where it can be argued that the surgery is your place of business.
    c. Professional subscriptions – can only be claimed by employees if they show on HMRC's List 3 – whereas subscriptions wholly and exclusively for the purposes of the practice may be claimed by a locum.
    d. Accountancy fees cannot be claimed by a salaried doctor, but the expense of preparing accounts and an incidental tax claim may be claimed by a locum.
    e. Other expenses – an employee can claim expenses that are wholly exclusively and necessarily incurred in the performance of the duties whereas for the self employed it only needs to be wholly and exclusively. This makes the claiming of expenses against salaried work very rare.

Finally, a warning. Where the locum is long term and is just an extra pair of hands, then they should be salaried. From a tax point of view you probably should be salaried in these circumstances, although the risk is mainly for the employer not the employee should the Revenue choose to 'reclassify' you. Anything over six months is deemed to be longer term.

10. SALARIED GP v PARTNERSHIP

So if you are ready to settle down in one practice, what are the pros and cons of salaried GP v partnership in tax terms?

As a salaried GP you will be taxed under PAYE so you will only need to complete a tax return if you have other untaxed income or income subject to higher rates of tax that is material. You do still have a duty to notify the Revenue if PAYE has not deducted the correct amount of tax. You also need to remember to make a claim for professional subscriptions if they are not met by your employer.

For your pension you will need to complete the fairly simple Type 2 practitioner certificate at the end of each year. Often the practice manager or partnership accountant will help you with this if you are unsure.

As a partner you are self employed, so you will need to complete a tax return each year. It is usually easier for the practice accountant to complete each partner's return for them, but we are seeing more doctors retaining their own accountant when they join a practice. Provided the accountants can communicate on the same wavelength this isn't a problem! You will normally complete an expenses claim for expenses relating to the practice that you meet personally rather than the practice paying. The obvious costs here will be use of home, car running and mobile phone but in some practices it will include professional subscriptions and training costs. It should be clear in your partnership agreement which costs are yours and which belong to the practice.

Your expenses claim, and usually your 'outside earnings' will be merged into the practice tax return, you cannot claim expenses separately on your own return. Thus the figures shown on your personal return will bear no obvious relationship to the profit figure shown in the practice accounts. The practice accountant should be able to show you how you get from one to the other if you ask.

You need to be aware that you pay tax on your profit share per your tax return – not on what you draw from the practice. Thus in the early years of partnership where you are restricting your drawings to build up working capital you will feel as if you are paying a very high rate of tax (particularly when you add student loan repayments in) compared to what you are drawing from the practice.

You will need to pay self employed national insurance – and again some practices pay it for the partners, some meet it personally.

The pension certificate for partners is rather more complicated than for salaried GPs and this will be completed by the practice accountant. Usually any balance payable/repayable will be met out of practice funds (because it will have been allowed for in arriving at your working capital or current account balance in the accounts). Again check your partnership agreement to make sure you know where you stand. If you are going to have to meet it personally out of drawings then you need early warning to save up for it.

There is a lot more to consider when weighing up whether to aim for a salaried for partnership position, but this has highlighted the practical tax effects.

11. OTHER TAXES

This is just a quick summary of other taxes and how they might affect you or members of your family.

CORPORATION TAX

This is paid by limited companies – for 2013 the main rate is 23%, but for profits up to £300,000 it is only 20%. Note that to get money out of a company into your own hands you'll need to pay PAYE/NIC if it is taken as salary or higher rate tax (if applicable) if taken as a dividend. So tax-wise, not a lot is saved by using a company if you need all the cash. The saving is in the National Insurance. For locums the cash flow savings comes from not paying pension contributions.

VAT

The provision of medical services is exempt from VAT so it is rare for an individual doctor to need to get involved with VAT. Note that medico-legal work and some medical reports are not exempt – so if income from this source is substantial, VAT registration may be necessary. Dispensing practices will need to register because the supply of drugs is zero rated not exempt. The VATable turnover limit for VAT registration is £79,000 from April 2013.

CAPITAL GAINS TAX

You are entitled to make capital gains of £10,900 in 2013-14 without paying any tax. Gains in excess of that are taxable probably at 28% (if you have very low other income it may be 18%) – or if it is a gain arising from a trade it could be only 10%.

There are complex reliefs available on residences where they are wholly or partly your main residence and have been let – it's worth seeking advice before committing yourself to a sale.

IHT

Inheritance tax is payable death on estates in excess of £325,000 that are not left to a legal spouse/civil partner. There is potentially a lifetime liability on gifts into trust but that's not an everyday occurrence. Talking to parents and older relatives about their Wills and plans for their Estate can help to plan to minimise what can be a very expensive tax.

Lifetime gifts are normally 'PETS' (potentially exempt transfers) which will fall out of account 7 years after the gift. There are also various exemptions to consider – small gifts under £250, annual amounts of £3,000 (in total), gifts in consideration of marriage, normal expenditure out of income etc. It is worth taking advice where a parent wishes to make gifts to children, to ensure the tax consequences are understood.

Note that there are pitfalls where family members make a gift to enable you to buy a home and then years in the future they move in with you. This is something to discuss before it becomes an expensive surprise many years down the line!

At NASGP, we believe that working as a sessional GP is a positive career choice that offers a fantastic opportunity to work as a GP.

But this way of working is continually under threat, and professional isolation is the single underlying challenge.

Professional isolation means poor access to keeping up-to-date; it makes it harder to get safe and fair working conditions provided by those that employ us; it makes our jobs less enjoyable and therefore less productive; it makes it harder to provide evidence for appraisal and revalidation. And all of that means we have to struggle to be the GPs we want to be.

Professional isolation can only be tackled with a united voice from an independent organisation that makes the welfare of its members a priority. And as a member of the NASGP, you are helping to reduce the isolation for yourself and your colleagues. Please continue with your support, and whenever possible please encourage your colleagues to join too.