

Maximising tax claims for hospital doctors

17 April 2024

Basics of Income Tax

What is subject to Income Tax?

- Earned income
 - Employment
 - Self-employment / partnership
- Pensions
- Interest on savings
- Investment income
- Trust income
- Some state benefits – state pension, Jobseekers Allowance, Widower's Pension
- Foreign income (if resident)



Examples of what is NOT subject to Income Tax?

- Some state benefits
- ISA's
- Rent a room (up to £7,500 pa)
- Premium bonds
- Tax credits – Housing Benefit, working Tax Credit, Child Tax Credit
- Gambling winnings



Whether you are employed or self-employed you will pay Income Tax at the same rate on your earnings/profit

	2024/25	2023/24
Personal allowance (free pay)	Up to £12,570	Up to £12,570
Basic rate (20% for earned income)	£12,571 - £50,270	£12,571 - £50,270
Higher rate (40% for earned income)	£50,271 - £125,140	£50,271 - £125,140
Additional rate (45% of earned income)	Over £125,140	Over £125,140
<i>Income Tax bands are different in Scotland</i>		

Personal allowances and tax bands apply to each individual and cannot be carried over or (usually) transferred

Personal savings allowance: £1,000
 £500 if 40% tax rate payer
 £0 if 45% tax rate payer

Starting rate allowance for savings of £5,000 but not eligible if other income £17,570 or more

Different tax rates apply to dividend income:

Dividend allowance: £1,000 (23/24) reducing to £500 (24/25)

If basic rate taxpayer 8.75%
If 40% taxpayer 33.75%
If 45% taxpayer 39.35%

Example – tax calculation 2023/24

		£
Salary income		80,000
Less superannuation contributions		(10,800)
Less personal allowance		(12,570)
<u>Taxable</u>		56,630
Tax thereon	37,700 @ 20%	7,540
	18,930 @ 40%	7,572
		15,112



Example – tax calculation 2023/24

		£
Salary income		80,000
Less superannuation contributions		(10,800)
Private practice income		50,000
Less personal allowance		(2,970)
<u>Taxable</u>		116,230
Tax thereon	37,700 @ 20%	7,540
	78,530 @ 40%	31,412
		38,952

**Additional income of £50,000
generates additional tax of £23,840 =
48% tax rate**



Claiming expenses against employment

Claims for expenses against employment income must be wholly, exclusively & **necessary** for you to be able to undertake your duties. Each and every holder of the same employment would also be obliged to incur the cost.

An expense may be unavoidable but that does not make it necessary. An employer may require a cost be incurred, but again this does not make it necessary.

You must look at the duties of the employment, not the requirements of the employer. E.g. CPD costs, you are required to maintain CPD requirements by the professional body, but your day-to-day duties could still be carried out whether or not you complete a course.

For those in the training phase of their career, attendance at external courses represents an intrinsic part of duties of the employment, and so these fees could be reclaimed.



Typical claims against self-employment income – not exhaustive

- **Uniforms, work clothing & tools**

- Repairing or replacing small tools needed to do your job
- Cleaning/replacing uniform or specialist clothing
- You cannot claim tax relief of PPE, if your employer requires you to use PPE, they should either provide it free of charge, or reimburse you the cost

- **Working from home**

- Tax relief can only be claimed if your employer requires you to work from home because your job requires you to live far away from the office
- Your employer does not have an office
- If they simply give you the flexibility to work from home, no tax relief can be claimed

- **Professional subscriptions** - If needed to do your job and are an approved professional body as set by HMRC

- **Travel/Overnight expenses** - Can be claimed if required to travel for work. If you choose to stay at a hotel to make a commute more convenient, costs can't be claimed



Typical claims against self-employment income – not exhaustive

- **Subscriptions:** Assuming not paid and claimed in the practice accounts
- **Telephone & internet:** Subject to business use %
- **Courses, travel & subsistence:** If adding to existing knowledge to be used in business
- **Spouse wages/pension:** Should be paid, may need a payroll and maybe taxable on the spouse. Must be reasonable and commensurate with duties undertaken
- **Computer equipment & consumables:** Subject to business use %
- **Locum insurance:** Assuming not paid and claimed in practice accounts



Typical claims against self-employment income – not exhaustive

Use of home

You can either claim actual expenses or flat rate prescribed by HMRC – this covers utility bills but doesn't cover telephone or internet expenses.

Hours of business use per month	Flat rate per month
25-50	£10
51-100	£18
101 or more	£26

On top of the flat rate expenses, you can claim a business proportion of mortgage interest, rates, repairs to your house. The business proportion should be based on number of rooms used for business purposes in your house compared to total rooms, as well as how often you use it.

For example, 25-50 hours per month equates to 600 hours compared to 8760 hours in the year. Maximum business proportion can only be 6.85% of total costs before taking into account rooms used.



Typical claims against self-employment income – not exhaustive

Motoring costs

- You can either claim 45p per business mile (for first 10,000 miles – 25p thereafter) or you can claim a business proportion of your total running costs of the car plus capital allowances
- Once you choose a method, you cannot change unless you change car
- Business mileage must be wholly and exclusively for business purposes. Home to work is normally considered commuting and is not allowable unless your base of operations is your home
- Finance – if you finance the purchase of your car, you may be able to get tax relief on the interest element of the finance or rental payments – not available if claiming 45p per mile

Electric cars

- First Year Allowances – 100% of cost of car subject to business use proportion
- Car must be new and unused and either fully electric or 0g/km CO2 emissions
- Car must be purchased outright or with a bank loan – if financed under a PCP, relief is not available



Disallowable expenses

Below are some examples of disallowable expenses:

- **Childcare costs**
- **School fees**
- **Life and Health insurance**
- **Some sickness policies**
- **Entertainment**
- **Home to work travel**



Other expenses that reduce Income Tax

Below are some examples:

- Pension contributions (although watch annual allowance and lifetime allowance and need to take into account anything paid by an employer)
- Personal pension payments to private arrangements outside of the NHS
- Loan interest on business loans paid personally
- Gift Aid payments
- Losses on other business' (not residential rental losses)
- Investments in EIS or VCTs



Child Benefit

Child Benefit will continue to be paid to a parent tax free. However, where they or their “partner” earn more than £60,000 the benefit will be clawed back by means of a tax charge.

Child Benefit is totally withdrawn for anyone with adjusted net income of £80,000 or more.

For those that have not claimed Child Benefit to avoid the HICBC and as a result have not received NI credits for years when they have been out of work due to childcare responsibilities, you should check your NI record to make sure you have enough qualifying years to receive a full state pension.



**Private practice –
self-employment v
limited company**

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Private practice – self-employment v LTD company

Self-employment

- All profits subject to tax on the individual, regardless of how spent
- Profits form part of overall taxable income and taxed at normal Income Tax rates
- No requirement to have a separate bank account, but it is good housekeeping
- No formal regulations in starting/stopping – just need to register with HMRC for a tax return
- Wider pool of expenses can be claimed, compared with employment
- Records are much simpler, no formal accounts need to be prepared, just need to summarise information to complete a tax return



Private practice – self-employment v LTD company

Limited company

- Separate legal entity from the individual
- Company needs to have its own bank account
- Company must be registered with Companies House, need to identify shareholders/directors
- Company pays Corporation Tax – main rate is 25% where profits > £50,000, obtain marginal relief if profits between £50,000 - £250,000. Tax rate of 19% for profits < £50,000
- Income can be drawn by way of salary (may need a payroll) or dividends
- Income only taxed on the individual if money is drawn from the company



Pros of using a company

- Possible tax savings depending on structure and income extraction
- Flexibility around withdrawing money from the company
- Sharing income with lower earning spouses and/or family members
- Limited liability
- Company pension contributions



Cons of using a company

- More complex than a sole trader
- Set-up on inception needs to be accurate
- More administrative requirements
- Separate entity and income for the company must be distributed before the individual can use it for personal purposes
- Possible tax disadvantages due to changes in the Corporation Tax rates and dividend allowances
- Increased accountancy costs
- Information available publicly





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