ISSUE 4 ■ AUTUMN 2015

TALKING MONEY

From Dental & Medical Financial Services and Lansdell & Rose Chartered Accountants

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Essential for business growth

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dental & medical FINANCIAL SERVICES

Dental & Medical Financial Services
1 Market Square, Horsham, West Sussex RH12 1EU
T: 01403 780 770 F: 01403 780 771 E: info@dentalandmedical.com

LANSDELL & ROSE
CHARTERED ACCOUNTANTS • BUSINESS & TAX ADVISORS

Lansdell & Rose Chartered Accountants
36 Earls Court Road, Kensington,London W8 6EJ
T: +44 (0) 20 7376 9333 F: 44 (0) 20 7376 9777

Inside this issue

Welcome to the Autumn 2015 magazine from Dental & Medical Financial Services and Lansdell & Rose medical and dental accountants.

Our two specialist companies have joined together again to provide you with an integrated outlook on a selection of topical financial, investment and tax issues relevant to most dental and medical professionals.

As the nights draw in and 2016 creeps closer, are you setting aside time to plan ahead for next year and your financial future? Are you maximising what you claim against your tax bill? Are your personal and business costs as low as they could be? And are you making plans towards a happier and healthy retirement?

Michael Lansdell, tax expert, looks at the sensitive topic of claiming tax relief on travel expenses, an area that many healthcare professionals get wrong. Michael also gives his seven top Key Performance Indicators to track the financial health of your business – essential for business growth and ongoing success.

Darren Scott-Guinness, Independent Financial Adviser, provides a detailed look at the pension choices doctors and dentists face following the changes to the Lifetime Allowance that will affect many healthcare professionals with pensions in excess of £1 million. Darren also gives thoughts as to why 2015 could be the year to remortgage, securing lower interest rates for the future as well, as the opportunity to consider other investment options.

There are free tools and factsheets available to our readers too, so look for the links in this magazine.

Darren Scott-Guinness
Dental & Medical Financial Services

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We hope you enjoy reading our magazine. To discuss your financial planning requirements or to obtain further information, please contact us.

Dental & Medical Financial Services
1 Market Square, Horsham,
West Sussex RH12 1EU

T: 01403 780770
F: 01403 780771
E: info@dentalandmedical.com
W: www.dentalandmedical.com

Lansdell & Rose
36 Earls Court Road
Kensington, London
W8 6EJ

T: 020 7376 9333
F: 020 7376 9777
E: info@lansdellrose.co.uk
W: www.lansdellrose.co.uk

7 GREAT KPIs TO TRACK FINANCIAL PERFORMANCE

Essential for business growth

What's all the fuss about KPIs?

Key Performance Indicators (KPIs) are important statistics that enable a business owner, at a glance, to assess the performance of their business.

For any doctor or dentist aspiring to grow their business, regularly assessing the business KPIs are a vital part of practice management.

KPIs can show trends month-on-month and year-on-year, highlighting the strengths and weaknesses of a business, as well as matching actual results with forecasts to ensure financial expectations are on target to being met.

KPIs are also vital tools for everyday decision-making, plus longer-term planning.

Understand your business goals first

KPIs come in all shapes and sizes, and each business is different when it comes to analysing their progress. Differing goals means what for one practice owner will be of high value to another may be of less importance.

Determining your goals in advance is therefore helpful. If not in a formal business plan or financial forecast, at least have a rough idea of what you want your practice to achieve within a set time frame so that relevant KPIs can be reported on.

Getting to the bottom of your data

Data is the key to being able to produce useful KPIs. If the data isn't accurate, or if it isn't kept up to date, then the KPIs will be of less worth. Typically, business owners don't have sufficient data to extract the information needed to produce a KPI report. This is due to poor systems that don't have instant reporting, and where the recording of income and expenses is tedious, so the task gets put off to another day.

The other extreme is where practice owners have too much data available and calculate multiple KPIs, making it difficult to focus on the important few. **Five to ten KPIs should be sufficient to get a good picture of the practice performance.**

KPIs for all business areas

KPIs can be calculated for all areas of your business. There are excellent KPIs to track the success of your sales and marketing process – tracing conversions between enquiries and new patients, for example.

Similarly, there are KPIs that focus on the effectiveness of your operational procedures and your team performance.

KPIs to assess your financial position

For doctors and dentists, these seven simple KPIs are a good start to getting a solid understanding of the practice's financial position. Data can be obtained from a monthly Profit and Loss Account and Balance Sheet.

Income – Year to Date (YTD) – Measures income from the start of the financial year to the date of the report, usually a month end.

Income – year on year – Measures income from one month compared to the same month in the previous year, highlighting seasonal trends and showing year-on-year growth.

Income growth rate % – Measures the growth of income month-on-month, calculated as income in month divided by income in previous month.

Income to Wages % – Calculated as wages divided by income. This KPI shows the expense of running your team in return for their efforts in generating income.

Gross Profit % (GP%) – Calculated as Gross Profit divided by income, this KPI shows the % of income retained after paying costs that are directly related to generating that income.

Net Profit % (NP%) – Calculated as Net Profit divided by income, this KPI shows the % of income retained after paying all costs including wages, property expenses and all admin overheads.

Liquidity ratio

Calculated as Assets divided by Liabilities from the Balance Sheet and represents the ability of the business to pay off its Liabilities (credit, loans, suppliers) with its Assets (bank, cash and pending payments from patients).

Start today – contact the team at Lansdell & Rose to start your KPI reporting, or visit our website www.lansdellrose.co.uk for more details. Tel: 020 7376 9333.

For your FREE KPI tip sheet, email Katie – katie@lansdellrose.co.uk

MAKE HAY WHILE THE **SUN SHINES**

Why 2015 is the year to remortgage your home

Mortgage interest rates remain at an all-time low, house prices continue to rise, lenders continue to compete for business and, despite a tightening in the mortgage regulations last year, these other factors mean borrowing money is proving, on the whole, successful.

Homeowners are remortgaging to simply secure a better rate of interest or a better lender for the long term, and many are already saving hundreds of pounds on mortgage repayments from switching. If your house has gone up significantly in price, you may now fall in a lower “loan-to-value” (LTV) band, opening up new lower rates.

Other homeowners are taking advantage of increased property prices combined with the low rates, and either selling-up to relocate, releasing money from their property for reinvestment, or borrowing more money for property improvements.

There are plenty of options available, specifically for doctors and dentists who can prove good levels of income.

ANALYSIS – the past three months

The results for mortgage lending just

Did you know?

Over 46,000 mortgages were approved in July 2015, making this the highest month for mortgage lending since the start of the recession in 2009.

keep on improving. The British Bankers Association (BBA) reported, for July 2015, the highest lending levels since the start of the financial crisis in 2009, with over 46,000 mortgage approvals. This was an 11% increase on July 2014 and a 3% increase on June 2015.

Remortgages also reached a four-year high, with many homeowners now spurred into action at the prospect of a rate rise.

Subsequently, the Council of Mortgage Lenders (CML) reported in August 2015 that mortgage lending exceeded £20billion, an 8% decrease from the super month of July, but a 12% increase from August 2014.

“Mortgage lending is currently enjoying its best spell since 2008, on the back of a pick-up in house purchase and remortgage activity over the summer months.”
Bob Pannell, chief economist at the CML

OUTLOOK – the next three months

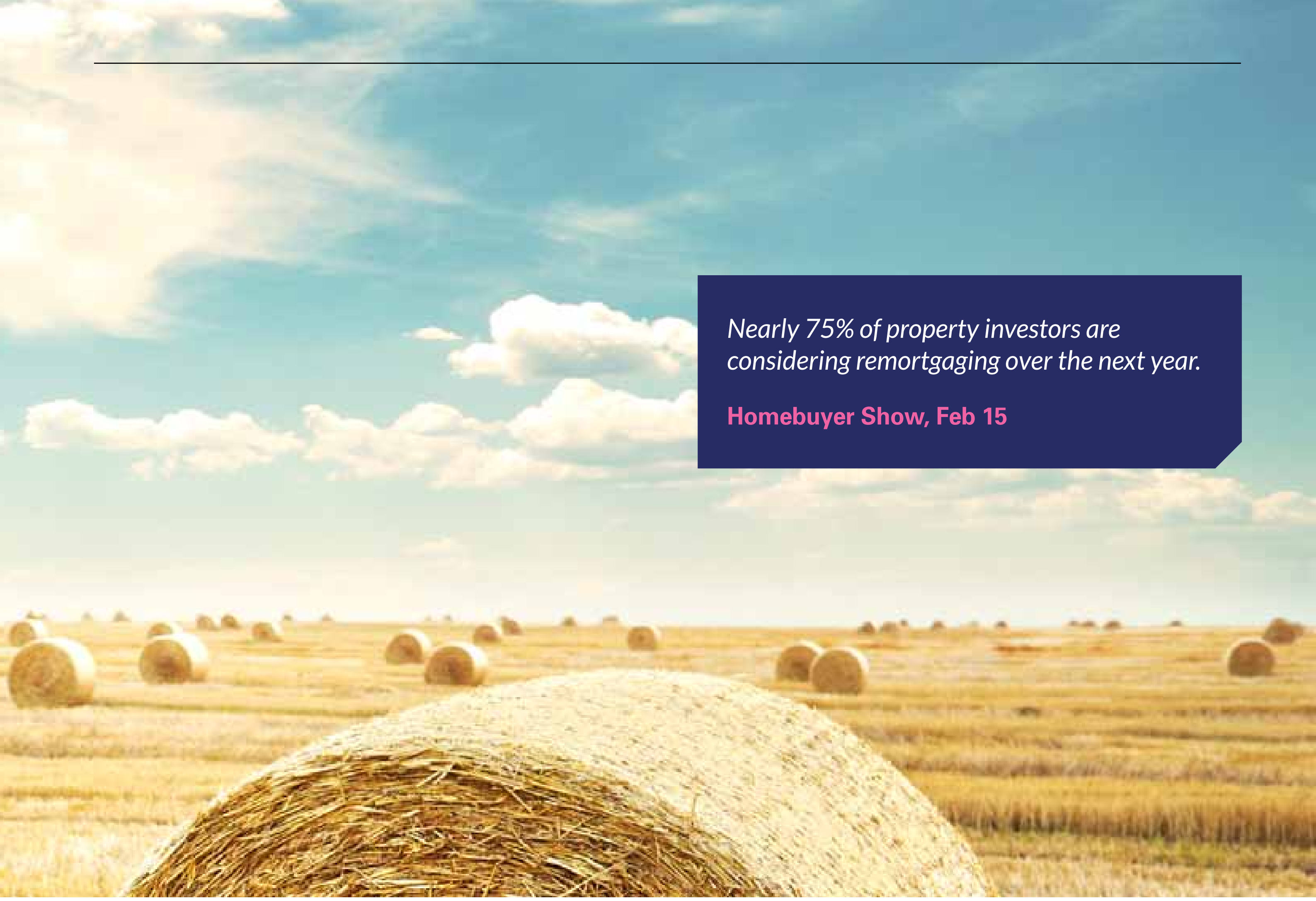
Lending is expected to continue at a steady pace in the next three months to the end of the year. A suspected rise in the Bank of England (BoE) rate means those who have not already remortgaged will most likely have to take action in the very near future so as not to miss out on the opportunity of saving cash or restructuring their mortgage arrangement.

Several lenders have already started to make small increases in their fixed rates in advance of the BoE to even out the gaps.

Remortgaging for reinvestment – have you considered a buy-to-let?

A buy-to-let investment used to be just for entrepreneurs looking to grow a property portfolio. However, now with a widening in the market, many homeowners are using this opportunity to cash in.

There is a growing population of homeowners who are releasing money from their own property for another bricks and mortar investment.



Nearly 75% of property investors are considering remortgaging over the next year.

Homebuyer Show, Feb 15

A survey by Barclays showed the key reason for three quarters of buy-to-let investments was now to secure income and wealth for their family's lifestyle and retirement.

"The increase in remortgaging over recent years is a reflection of changes in the wider consumer market."
Nick Clark, Homebuyer Show

The right property and the right area are important factors, as always, but landlords can now also take advantage of a more flexible "rental calculation" as part of the buy-to-let mortgage application.

This is particularly useful for London-based property investors where house prices are high but the rent doesn't always correspond to the right LTV. The new style calculation allows more flexibility in this respect.

Using your home to increase your loan

If a property has built up sufficient equity, there is often the option to remortgage to release funds for home improvements, debt consolidation or other personal desires (say, a new car).

Lenders will want to know what the extra cash is going to be spent on, and the usual affordability calculations will apply to the new loan value.

However, homeowners are using their higher property values to enable a higher loan-to-value and therefore further lending.

Would a remortgage suit you?

A remortgage isn't for everyone – there are clear reasons why not to switch lenders as well. Maybe you have an excellent rate, or maybe you only have a small amount left to pay, in which case moving may not profit. Maybe there is a high early repayment charge, or possibly there has been a change in your circumstances since first mortgaging; going self-employed is an example of this where sufficient proof of income is lacking.

Think about remortgaging if the following apply:

- I am keen to secure a better rate before any rate rise
- My mortgage deal is coming to an end
- My home value has increased by a lot
- I want to switch from interest only to repayment mortgage
- I want to release cash from my home for new investments
- I want to borrow more money against my home
- I want more flexibility, like making lump sum payments

Remortgaging may not be for you if the following apply:

- My mortgage debt is very small
- I have a high early repayment charge
- I have recently gone self-employed
- My home has dropped in value since I bought it
- I don't have much equity in my property
- I recently had credit problems
- My rate is already excellent

If you haven't considered remortgaging already, contact the team of specialist mortgage advisers at Dental & Medical Financial Services, who can prepare a mortgage comparison to detail potential savings. You too can make hay whilst the sun shines.
Tel: 01403 780770

This does not constitute advice, and advice should be sought in all instances before acting on it. Your property may be at risk should you be unable to maintain any agreed mortgage payments over the term agreed.

THE **TAX TREATMENT** OF TRAVELLING

Do you know what you can and can't claim?

Misconceptions by doctors and dentists on what can and can't be claimed for tax relief are common when it comes to travel expenses.

Consequently, this makes a highly relevant topic for healthcare professionals trading as self-employed or within a partnership, and for HMRC, who have had this subject on their radar a while.

It pays to know the facts so you don't get stung!

What classifies as an allowable travel expense?

Travel expenses available for tax relief include all car-running costs: fuel, servicing, repairs, insurance, tax and parking, typically categorised as "motor expenses". Plus also trains, planes, taxis and any other means of transport, typically categorised as "travel expenses".

In fact, more importantly than "what" travel expenses can be claimed for tax relief is "when" they can be claimed.

Where is your primary place of work?

Many healthcare professionals find themselves working between several practices or hospitals, and often the work doesn't stop there: most take work back to the home office to finish off.

Subsequently, the first hurdle is determining the principal place of work, which isn't always straightforward.

Travelling to and from the home office

Whilst a home office is often the admin HQ, HMRC generally do not consider it a strict place of work.

The reason for this is that it appears to break the "wholly and exclusively" rule stating that, for an expense to be allowable, it must be 100% for business use, as well as wholly necessary.

As a home office is also, primarily, a home, it has a dual role for personal and business.

In the vast majority of cases, there is little scope to claim back any tax on these journeys unless specific conditions are met – **it's worth speaking to a professional accountant to assess your circumstances though.**

In further attempts to tighten the belt, HMRC also consider work to start only when the "trader" (i.e. a doctor or dentist) sees the first "customer", in this case, a patient, so if the home office isn't used to see patients as well, then this adds another layer of evidence against your claim.

What about NHS contractors?

A doctor or dentist may have an NHS employment contract in addition to self-employment, or a privately owned limited company. So the next hurdle, in these more complex situations, is to assess whether a travel expense relates to employment or self-employment.

Travel between NHS and private practices

Referring to a recent HMRC investigation that went to tribunal, the Samadian Case, here a consultant geriatrician has a full-time NHS employment contract working between several hospitals as well as a private practice at two private hospitals. He trades as self-employed with an office at home.

The tribunal concluded that journeys between NHS hospitals and the private practices were considered not allowable. However, journeys from one NHS hospital to another were. If he had to visit an NHS patient at their home, it was also considered allowable, but only if he was travelling from an NHS hospital.

Whilst journeys between NHS hospitals were also deemed allowable under the "wholly and exclusively" rule, it wouldn't be allowable against the self-employed income.

As you can see, things can get complex!

Fighting your corner

Claiming tax relief becomes a case of finding evidence to support the situation. If work is conducted at home, is it necessary to be done there? Do you also see patients at home? Is there an alternative place to do admin in the practice? Is the home office purely for business use? These are all questions that could be asked if investigated by HMRC.

In all situations, particularly complex ones where there is a combination of employment and self-employment, professional advice will help reassure that your tax claim is correct.

Lansdell & Rose can help apply the rules to your own situation and ensure you are claiming the maximum tax relief possible whilst complying with HMRC regulations. Call today to speak with our team of friendly accountants. – Tel: 020 7376 9333.

DOCTORS AND DENTISTS FACE **PENSION CHOICES**

Will the reduced Lifetime Allowance affect you?

Doctors and dentists are fortunate that their hard work in training to become a professional typically provides excess income that allows a comfortable lifestyle and the ability to save for a good retirement.

Subsequently, it is common for both doctors and dentists to have a private pension as well any NHS pension also in place.

Another reduction in the Lifetime Allowance (LTA)

Recent news of a further reduction in the LTA creates a very real problem for many healthcare professionals who have pension funds in excess of £1million.

The LTA is the level a pension pot can grow to within a person's lifetime, free of tax implications. It applies to both private and NHS pensions. It has been reducing for a while now, first from £1.5 million to the current level of £1.25 million. From April 2016, the new £1million limit will apply.

Should I stop paying into my pension?

As Independent Financial Advisers to doctors and dentists, we have been helping many of our clients with deciding the best route for them when it comes to their continued pension planning.

Should I give up my employer pension contributions? Should I stop paying into my private pension? Should I take my employer's offer of an increase in salary instead of pension contributions? These are all questions doctors and dentists face at the moment, as they fear paying tax over and above the new LTA.

Have you considered the LTA tax charge may be a price worth paying?

It is only natural to run away from a situation that presents itself with a tax bill.

However, in some circumstances, paying the tax still beats the alternatives (such as reinvesting in savings or property).

Surely if the financial returns are still greater after the tax has been calculated and paid, you are still winning?

It's an important and not entirely straightforward decision though, and one that a professional financial adviser can help ease with their experience.

Employer funding packages = free money

One key influencer is likely to be the level of employer contributions, and whether your employer would stop contributions if you did.

Employer pension contributions are essentially free money, so even if a 55% charge applies, that is still a 45% gain! Have you thought of it that way before?

If the employer is not obliged, or chooses to not fund your pension if you don't contribute too, then it may still be worth paying in your share and taking the hit for the LTA tax charge just to get their input.

Would your employer offer an alternative like additional salary instead of pension contributions? This isn't so common with the NHS and public sector posts but can be seen in the private sector.

If yes, be careful to factor in the tax implications so as to not compare apples and pears. Additional salary will fall subject to Income Tax and National Insurance, so the net effect may in fact work out less than you expect.

Then there is the question of where to invest it if not in a pension. ISAs? Bonds? Mutual funds? The decision is difficult and would depend on your tax position as a basic-rate or higher-rate taxpayer when in retirement.

Protecting your LTA allowance

There will be Protection schemes, likely available for those with pension funds in excess of £1million at April 2016, which will shelter their current pension funds from tax implications so they don't lose out during this transition. It will effectively mean up to an additional £250,000 would fall as tax-free.

For NHS pensions, it gets more complex due to the new 2015 pension, as existing pension covers will be lost when joining. This is definitely something to take advice on.

The downside of a protection scheme is that future investment will be restricted. Even a pound of additional funding will see a loss in the protection cover.

Questions that need answering include: "How close is your expected date of retirement?" and "How close to £1million is your pension fund?"

Other possible ways to limit the LTA tax charge

Aside from protecting the LTA limit, which comes with its own set of considerations, there are some other ways that the LTA tax charge could be avoided in specific cases.

1) Hold on taking pension benefits – the LTA charge only applies on drawdown, so one option would be to wait to see if the LTA limit increases again in future years.
2) Draw your NHS pension before April 2016 – if terms and age restrictions allow, this could be a possibility. Take care though not to be penalised with reductions from the NHS.
3) Transfer some of the pension fund to your spouse – where your spouse has an active role within the practice, a subsequent employer pension contribution could be made.

Very careful retirement planning

All in all, this new legislation requires bespoke and more in-depth retirement planning as many variables come into play.

When all is said and done, sticking to the original pension schedule and sucking up the tax bill along with it shouldn't be disregarded immediately until a bespoke calculation is prepared for you, working through all options and their subsequent tax consequences.

Dental & Medical Financial Services are working with our clients to ensure they are making the right choices when it comes to their ongoing pension planning – you can also download our free electronic Help Sheet on the Lifetime Allowance from our website: www.dentalandmedical.com/factfinal/lifetime_allowance.pdf
Tel: 01403 780770

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Have you seen our **online financial calculators** and digital **eFactsheets**?

VISIT OUR WEBSITE:
www.dentalandmedical.com/financial-news.html for more information

Dental & Medical Financial Services
1 Market Square, Horsham, West Sussex RH12 1EU
T: 01403 780 770 F: 01403 780 771
E: info@dentalandmedical.com W: www.dentalandmedical.com

CHRIS'S MONTHLY MORTGAGE UPDATE

Type	Years	%
Fixed Rate	2	1.39%
Fixed Rate	3	1.89%
Fixed Rate	5	2.33%
Fixed Rate	10	3.24%
Offset Products: Fixed Smaller Deposit – 90%	2	1.69%
Purchase/Remortgage Smaller Deposit – 85%	2	2.76%
Purchase/Remortgage Buy-to-let - Deposit 75%	2	1.95%
Purchase/Remortgage	2	2.54%

The average lender's Standard Variable Rate is now 4.48% (BOE 31 August 2015)

Have you considered a **remortgage?**

This does not constitute advice, and advice should be sought in all instances before acting on it. Your property may be at risk should you be unable to maintain any agreed mortgage payments over the term agreed.