

Associate companies

Bob Cummings discusses associate superannuation.

Safeguard your NHS pension before considering incorporation.

Many dentists have incorporated their business to reduce tax bills following the change in the Dentists' Act in



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July 2006 which allowed dental services to be provided by a company. Since April 2010 and the abolition of the personal tax allowance and the introduction of the 50 per cent additional rate tax band for higher earners, the rate of dental incorporations picked up pace.

In simple terms, dentists found they could shelter profits from high personal tax rates by trading through a limited company. This means that profits are taxed at company (Corporation Tax) rates of, in most cases, only 21 per cent. The dentist may, of course, pay personal tax on salary and dividends drawn from

the company. Savings in tax and reductions in National Insurance contributions can be achieved to varying degrees with careful planning.

However, many NHS dentists (providers or performers) may not have taken account of their NHS Pension Scheme and how this may be affected. Following incorporation the superannuation position for a provider (that is, ↻

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☉GDS or PDS contractor) remains basically as before. That is, their pensionable income, which can include salary and dividends, must reflect their GDS/PDS net income. The total pensionable income of the GDS (or PDS) practice cannot exceed 43.9 per cent of the total contract value and will be lower if any of the practice dentists are not members of the scheme.

However if a performer incorporates (that is, an associate sets themselves up as a limited company) they cannot be a member of the NHS Pension Scheme because the regulations do not permit this.

NHS Pensions has offered the following explanation: 'Whilst it is permitted for a GDS (or PDS contractor) to incorporate and for the providers (ie general dental practitioner shareholders) to remain in the NHS Pension Scheme there are no provisions for a performer (ie associate) to remain in the scheme if they set themselves up as a limited company or similar.

'When the associate incorporates the contractual arrangements change in pension terms. The GDS (or PDS) contractor sub-contracts with a company, rather than contracts with an individual, and the company sends the associate to perform the work. Under The NHS Pension Scheme regulations the limited company created by the associate is not recognised as a type 1 dental practitioner.'

It is beyond the scope of this article to value the loss of NHS Pension Scheme membership versus tax savings. However, it is likely that in most cases the loss of benefits will greatly outweigh current tax savings.

Many dentists appear to be unaware of this issue. Anecdotal evidence suggests that there are a number of associates currently operating through a limited company arrangement who continue to contribute to the NHS Pension Scheme by paying superannuation via practice NHS

schedules.

I understand that NHS Pensions has been in dialogue with the health department (and other stakeholders) and intend to review matters. The dental profession will receive further guidance in the near future however and some associates may have their scheme contributions refunded if they were ineligible to join it.

If this is the case they should seek independent advice in respect of alternative pension arrangements. Associates who are currently considering incorporation should take account of the pensions implications before doing so. In all events, it is worth consulting a specialist dental accountant.

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