THE PENSION RIGHTS OF NHS PRINCIPALS IN LIMITED COMPANIES

New guidance (1) has been issued by NHS Pensions which clarifies the pension entitlement of NHS principals who operate through limited companies. The changes, to be enshrined in legislation due to go before Parliament early next month (November), will mean that incorporated principals will have to pay more to retain maximum pension rights.

For principals who have incorporated, their annual pensionable earnings will be based on salary and dividends from the incorporated practice NHS activities only, as opposed to the conventional calculation of the principal's share of 43.9% of NHS contract value.

The National Association of Specialist Dental Accountants and Lawyers (NASDAL) warns that the new rules could mean that some of the tax savings arising from incorporation are lost, or alternatively that the very valuable benefits arising from contributions to the NHS pension scheme are reduced.

NASDAL Media Spokesman, Alan Suggett said that whilst for a few principals, NHS incorporation might still be attractive, for others it would involve higher tax bills than expected or a reduced pension. "It is important to appreciate that this isn't the death knell for practice incorporation, it will still benefit some practitioners. However, caution and very careful planning of how to extract profits from dental companies, are essential."

The Chairman of NASDAL, Nick Ledingham commented: "I have over the years advised many of my NHS dental principal clients against incorporating. Those dentists who are worst affected by the clarification given in this new guidance will hopefully see the benefits of using a specialist NASDAL dental accountant in the future."

Notes For Editors

1 http://www.nhsbsa.nhs.uk/Pensions/Documents/Pensions/GDP_Pensions_Guide_(V1)_09.2011.pdf

2) This release is one of three relating to the new Pensions guidance for dentists. The other two releases from NASDAL deal with incorporation from the perspective of associates and

confusion over associate pension entitlements.

3) Background: The changes in the Dentists Act in 2006 allowed dentists to incorporate freely. For some principal dentists incorporation lead to significant short term tax savings. This is because they sold the goodwill which was previously their own, to the limited company, and paid Capital Gains Tax at only 10% on this transaction. They then withdrew the proceeds of the sale of the goodwill from the limited company via their "loan account" with the limited company over a period of four or so years without the need to pay any further personal tax (although the limited company would have to pay Corporation Tax on its profits).

For NHS practices however the new guidance has clarified that dental principals working through limited companies are only allowed to pension themselves to the extent of any profits extracted from their limited company (by way of salary or dividends), and not to the (usually much larger) extent of the actual superannuation deductions associated with their NHS contract.

4) For more information or to obtain photos or the logo of NASDAL, please contact Caroline Holland on 020 8679 9595/07974 731396 or caroline@mediamardle.com