ISSUE 3 ■ SUMMER 2015

TALKINGMONEY

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

UNDERSTAND INVESTMENT RISK **BEFORE INVESTING**

PROPERTY UPDATE: IT'S ALL ABOUT BUY-TO-LET

HOW FINANCIAL FORECASTING CAN SAVE YOU TAX

If you are a dental or medical business owner wanting to grow your business profits whilst still saving tax, Financial Forecasting is essential.

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 Summer 2015 magazine from Dental & Medical Financial Services and Lansdell & Rose medical and dental accountants.

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

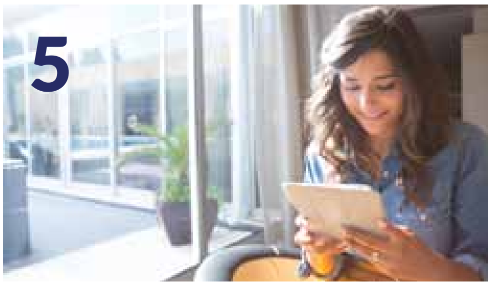
Those of you who are heading off to sunny shores in the summer months may like to set aside some time for contemplation about your business, your taxes and your future financial position. Are there any changes that can be made to improve your current circumstances and pave the way to make more profit, pay less tax and plan ahead for a happy retirement?

Michael Lansdell, tax expert, looks at how financial forecasting and planning ahead can save you tax by following a few strategic steps. Michael also explains the detail behind how you can claim tax relief through your pension, plus one or two recent changes to pension legislation that could affect you.

Darren Scott-Guinness, Independent Financial Adviser, provides a comprehensive property update focused on the increasing popularity of buy-to-let investments. Darren also summarises the various risks involved when it comes to investing and how you can ensure you are keeping those to a minimum whilst understanding your risk tolerance levels.

There are free tools available to our readers and a prize draw to win a beautiful case of summer wine worth over £75 – just follow us on LinkedIn to be automatically entered.

Darren Scott-Guinness
Dental & Medical Financial Services



Contents

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

The content of the articles featured in this publication is for your general information and use only and is not intended to address your particular requirements. Articles should not be relied upon in their entirety and shall not be deemed to be, or constitute, advice. Although endeavours have been made to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No individual or company should act upon such information without receiving appropriate professional advice after a thorough examination of their particular situation. We cannot accept responsibility for any loss as a result of acts or omissions taken in respect of any articles. Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts. Levels and bases of, and reliefs from, taxation are subject to change and their value depends on the individual circumstances of the investor. The value of your investments can go down as well as up and you may get back less than you invested. Past performance is not a reliable indicator of future results.

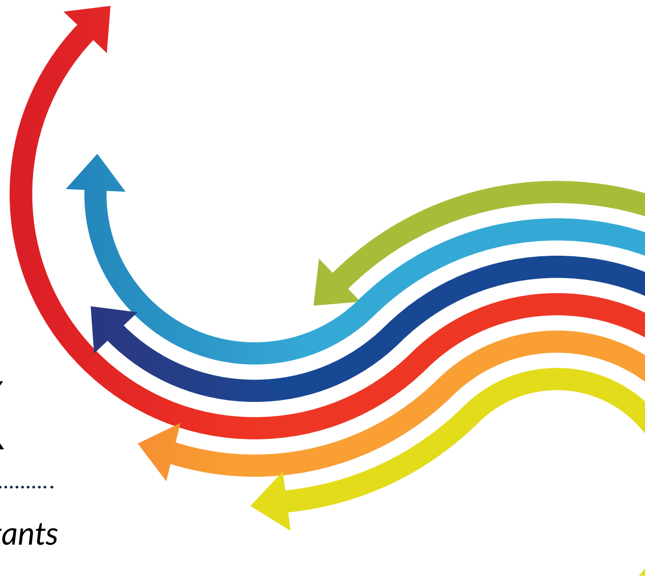
Dental & Medical Financial Services
1 Market Square, Horsham,
West Sussex, RH12 1EU

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

HOW FINANCIAL FORECASTING CAN **SAVE** YOU TAX



*By **Michael Lansdell**, Landell & Rose medical and dental accountants*

If you are a dental or medical business owner wanting to grow your business profits whilst still saving tax, Financial Forecasting is essential.

'Financial Forecasting' simply means making educated predictions towards your business activities for the coming months and years so you can be clever and maximise all possible tax breaks available to you, whilst at the same time continuing to boost your profits to the next level.

'Don't Let the Tax Tail Wag the Investment Dog'

It is logical that as profits rise, so typically does the tax liability.

This is a frustration for many healthcare professionals, with some even choosing to restrict their profits and therefore cap the success of their business so as not to pay more tax.

Six key ways to reduce tax through forward planning

Whilst every practice is different, there are a few key ways to reduce both business and personal tax through forward planning and forecasting business activity.

(1) Plan business expenditure and ensure all tax-deductible expenses are being claimed against profits
Costs within a business can easily escalate out of control without a budget, and a formal Financial Forecast is a practical way of budgeting.

Similarly, though, profits can often be higher than they should be at the end of the year and therefore taxed inefficiently if costs are missed through lack of planning. Understanding business expenditure patterns and planning cost activity helps to maximise tax relief whilst ensuring expenditure is necessary.

Remember, there is no merit in spending for spending sake, even if it does reduce tax.

(2) Timing of capital expenditure purchases
Timing the purchase of capital expenditure, such as dental and medical equipment, computer equipment or fixtures and fittings for your practice, can be an effective way to save tax for certain tax periods. For example, the Annual Investment Allowance, which is due to be decreased from £500,000 to £200,000 on 1 January 2016, shows how timing can be applied to maximise tax relief.

(3) Dividend planning for directors of limited companies
The timing of withdrawing funds from your limited company can have a negative or positive effect on personal tax. This needs careful planning with an accountant to ensure you are not missing a trick.

(4) Timing of recruitment and resource management
Hiring new staff can be costly to a practice, especially if the timing is not right. An added salary on the books when there isn't sufficient income can result in a dip in profits. Forecasting income levels in the coming months and years helps to support decisions for recruitment and ensure that the tax relief received on the deductible wages expenses will match the benefits of increasing your income and profits.

(5) Business expansion and investment timing
Many dental and medical practices get to the stage where they wish to expand. Whether that involves moving to new premises, expanding existing premises or opening another practice, timing is crucial.

Forecasting the impact on both income and expenditure will ensure decisions are educated. There are numerous tax opportunities when making bigger investment choices. These could be linked to methods of funding, 'when, where and how' to expand, or the continued business structure.

Planning is the only way to ensure tax is minimised.

(6) Forecasting to ensure tax payments can be met
Finally, Financial Forecasting can predict future profits and therefore calculate future taxes, to quite an accurate level when prepared properly. Cash flow through your business can also be forecasted to ensure tax payments can be made on time, and unnecessary charges and interest will not be incurred.

Free template available

Financial forecasting is not a one off activity. It needs regular attention and updates. Every three months is recommended but many larger and successful practices will update their forecasts every month.

Start today – contact the team at Lansdell & Rose to be sent your free download, or visit our website for more details. Tel: 020 7376 9333.

Tax relief on pension contributions – **are you claiming yours?**

*By **Michael Lansdell**, Landell & Rose medical and dental accountants*

Pensions continue to be a highly effective means of tax-efficient retirement planning for doctors and dentists.

With the Pension Reform in April 2015, the new flexibilities will be an added advantage for many, and already in recent months retirees are finding innovative ways to maximise the return on their investments under new legislation.

Very recent news announced in the Second Budget on 8 July 2015 will see some tax benefits reduced for high earners – we will take a brief look at the impact of that later in this article.

The number one investment for tax benefits

Every year, the UK Government contributes over £34 million to pension tax relief.

This helps out millions of taxpayers, as all UK residents under 75 years of age are entitled to claim. Even children and non-taxpayers are able to claim back a share. It really is worth consideration from everyone.

Pensions, like most investments, are most effective over the long term, as any dips in activity can usually be worked around if time is available. However, the average age for starting a pension is over 30 years old. Of course, there is always a risk of investment value reducing over time; however, financial advisers and accountants can help keep an eye on reducing the associated risks.

How is pension tax relief calculated?

Taxpayers are automatically given pension tax relief at the basic rate: for 2015/16, it's 20%. With higher-rate taxpayers, there is an additional 20% tax relief available, and for top-rate taxpayers, there is an additional 25%.

In the table below (Fig 1.) we see examples based on what it costs you if you were to gain a £10,000 pension injection.

Top benefits of using a pension to reduce tax

So what makes this investment vehicle so popular amongst doctors and dentists?

Well, most doctors and dentists earn above the basic tax bracket, which is where the cream on the cake lies with pension tax relief.

1. Pensions can offer up to 45% tax relief

As shown in the below table, a top-rate taxpayer (which includes anyone earning over £150,000 for the 2015/16 tax year) can receive up to 45% tax relief.

Higher-rate taxpayers (those earning circa £32,000-£150,000) can receive 40%.

2. You can avoid paying higher-rate tax

Effectively, if you are just on the edge between basic-rate tax and higher-rate tax, contributing to a pension can actually enable you to avoid tax at the higher 40% rate. This is because the additional 40% tax rate is reduced to 20% by the additional tax relief on pension contributions.

Investment into a pension can therefore keep tax at 20% whilst building your pension.

3. 25% is now available to withdraw, free of tax

Since the rules changed in April 2015, pension holders aged 55 and over can withdraw 25% of the pension pot with no tax implications.

So far, many have been withdrawing pension funds and purchasing a buy-to-let property to diversify their retirement plan and receive a regular rental income.

However, careful tax planning is required, as further pension withdrawals are subject to tax, and a pension should be seen as a mechanism to last through your retirement years.

4. No Income Tax and Capital Gains Tax implications

Funds within a pension can grow without incurring Income Tax or Capital Gains Tax, making this another unique benefit.

The annual allowance and reduced benefits for high earners

The current annual allowance for pension tax relief each year is £40,000.

However, the Conservatives, whilst keen to encourage pension planning to ensure the UK can support its ageing population, is also making cuts on what is effectively an expensive outlay for them.

Their proposal is to taper the annual allowance for high earners (those earning over £150,000) so as to restrict tax relief contributed by the Government.

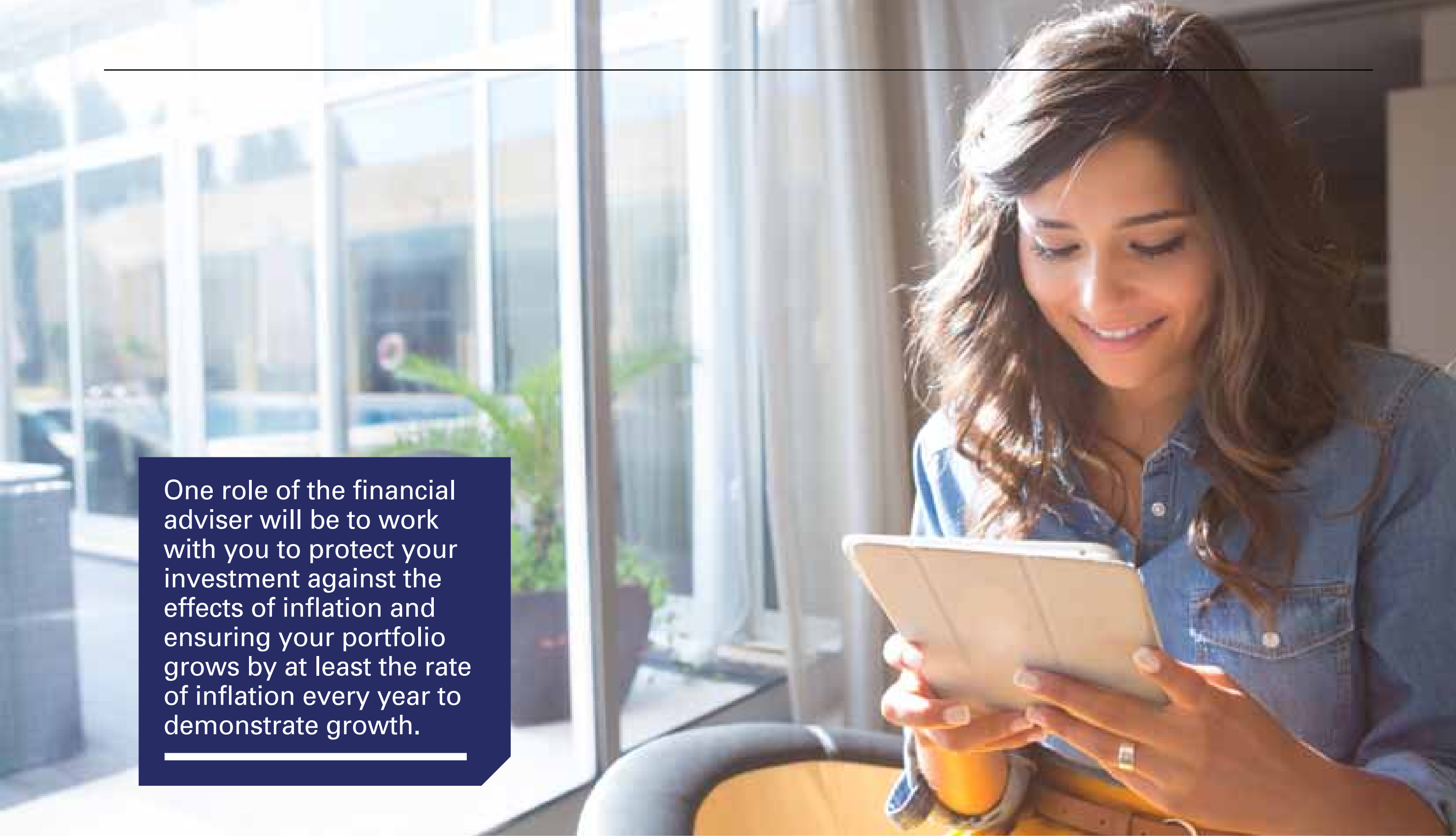
Regardless of this change in tact, pension planning continues to be high value, but high earners specifically are encouraged to discuss their options with a specialist accountant and financial adviser.

Claim your share of pension tax relief!

Contact the team at Lansdell & Rose for a free tax planning meeting to ensure you are saving for your retirement and saving tax as well. Tel: 020 7376 9333.

Fig 1.

Status of taxpayer	Government contribution	% of tax relief	Cost to investor (you)
Basic	£2,000	20%	£8,000
Higher	£4,000	40%	£6,000
Top	£4,500	45%	£5,500



One role of the financial adviser will be to work with you to protect your investment against the effects of inflation and ensuring your portfolio grows by at least the rate of inflation every year to demonstrate growth.

UNDERSTAND INVESTMENT RISK **BEFORE INVESTING**

*by **Darren Scott-Guinness**, Dental & Medical Financial Services*

It is widely understood that virtually all investment involves an element of risk; how much risk is usually linked to the potential reward. Understanding the different types of investment risk and your own attitude to risk will help you to determine your comfort zone and make better decisions.

Types of investment risk

1. Risk of inflation

'Inflation' is a word everyone will have heard of, and some will be more familiar of its effect on investment planning than others.

Inflation controls the general price of goods and services, so economies try their best to avoid significant rises or falls so as to keep conditions stable. The aim for UK inflation, set by the Bank of England, is 2% per year, although typically inflation fluctuates below and above this mark.

To use an example, income of £10,000 today would, in 10 years' time, be worth just £8,200, with inflation at 2% per year. In 20 years, it will be worth just £6,730.

Similarly, investments that are worth £10,000 today should ideally be at least £13,800 in 10 years' time just to have kept their original value.

One role of the financial adviser will be to work with you to protect your investment against the effects of inflation and ensuring your portfolio grows by at least the rate of inflation every year to demonstrate growth.

2. Risk to capital

Capital growth may be the priority for you when deciding on investment options. For example, property and other equity investments can see significant growth over time; however, there is always a risk to a decrease in the capital value as well. If the value of a capital investment falls, sometimes it may recover, but sometimes it may not, or it may take many years to do so – this is the risk.

Diversifying investments helps to spread the risk. It's often a case of not putting all your eggs in one basket, as this can cause stressful conditions, especially if your 'risk tolerance' is low.

3. Risk to income

As an alternative, income may be the driving factor when it comes to your preference for investment. Rather than equity investments, which rely on growth, it may be more valuable to you to receive a regular amount of money in exchange for the funds originally invested. Rental income is an example of this. Many landlords are, in fact, not so concerned with the capital growth; instead, they are just interested in securing a tenant who will cover the mortgage payments each month. Similarly, with equity-based funds, dividends may be the key incentive for many investors.

The risk here lies in the income stream running out, so investors will always need to protect themselves against this risk by forward planning.

4. Risk of shortfall

The risk of shortfall is a common concern for investors. This simply refers to an investment not providing sufficient results when the time comes to draw on the investment or portfolio – pensions are a good example. *Cont...*

This can be for a number of reasons: one being that the upfront expectation of performance is too high. Another reason is that the initial sum and contributions were not sufficient for the return required.

How to best assess your attitude to risk

The best way to assess your 'risk tolerance' is to work with a professional financial advisor who knows the market. They can ask poignant questions to get to the bottom of the situation. They can also explain, in practical terms, the probability of success versus failure and provide case studies of others who have walked the very same path before you.

Risk tolerance is usually circumstantial

Usually, attitude to risk is circumstantial based on what you have to lose, so consider the following:

- How quickly is an ROI required?
- Do you need to be able to gain access to the original funds? This can be assessed in the short, medium or long term.
- What is your capacity for loss – i.e. do you have a reserve or a back-up plan?
- Are there opportunities to be tax-efficient?

Building your wealth through robust methods in a way that fits with your attitude to risk is essential for financial planning.

A simple question could be:
Thinking of the word 'risk', which first word is your primary thought?

- ☐ Loss
- ☐ Uncertainty
- ☐ Opportunity
- ☐ Excitement

Download the Dental & Medical Risk Assessment Questionnaire to get started: **www.dentalandmedical.com/financial-services-investment-planning.html**

The above does not constitute advice and advice should be sought in all instances before acting on it.

CHRIS'S MONTHLY MORTGAGE UPDATE

Keeping doctors and dentists informed with the latest mortgage news and rates

With the Bank of England base rate continuing at 0.5%, the average mortgage interest payment was just 3.01% for Quarter 1 (April, May and June 2015). Subsequently, the competition amongst lenders continues.

Examples of the latest interest rates

Fixed Rate
2 Year @ 1.39%
3 Year @ 1.84%
5 Year @ 2.29%
10 Year @ 2.99%

Offset Products
- 2 Year Fixed @ 1.74%

Smaller Deposit – Purchase/ Remortgage
- 90% 2 Year @ 2.89%
- 85% 2 Year @ 2.05%

Buy-to-let arrangements
- 75% 2 Year fixed @ 2.75%

The above does not constitute advice and advice should be sought in all instances before acting on it

GET A MORTGAGE REVIEW WITH CHRIS

If you would like us to undertake a review of your current mortgage deal, or you are thinking of purchasing in the near future and require funding, please contact Chris for a free, no obligation appraisal. Tel: 01403 780 770

PROPERTY UPDATE:
IT'S ALL ABOUT BUY-TO-LET

Almost £1 trillion in value

The Council of Mortgage Lenders (CML) have predicted that the buy-to-let property market value will exceed £1 trillion in 2015 as it continues to soar towards this level.
In 2014, the overall value of UK residential property wealth was assessed at £4.8 trillion by CML. 'Owner occupiers' held £1.8 trillion of this wealth pot, yet surprisingly buy-to-let investors held £990 billion.

This represents a 70% increase in this area of the market since 2007, when the financial crisis set in.

The rise is surprising, as these types of buy-to-let investment loans have only been available since the mid-nineties, so growth in a short space of time has been significant and it continues to be the fastest-growing part of the mortgage market.

Against the £990 billion in wealth value, borrowings are relatively small, with almost £650 billion buy-to-let properties being completely mortgage free.

> "The value of the private rented sector was £990 billion in 2014 and, in all likelihood, it will exceed £1,000 billion in 2015."
> CML

Why buy-to-let?

Since an element of confidence in other retirement planning vehicles (such as pensions and savings) declined, more people started to look to bricks and mortar as a way to gain a return on investment to use as an income in retirement.

Doctors and dentists, as high earners, tend to diversify their retirement plans between pensions, property, savings and other investments.

Many choose to work with a financial adviser to get this investment mix right for them, in terms of return on investment and attitude to risk. Buy-to-let property investment is versatile in so much that investors can choose to sell the property when sufficient equity has built up, to gain a lump cash sum to either live on or reinvest. Alternatively, investors can choose to just continue receiving a monthly sum from rental income once financial commitments, such as mortgages, have been paid off.

Of course, there is no guarantee that a property investment will receive a return, as the housing market certainly is vulnerable to economic peaks and troughs, and it can be a risky business. However, the mindset of many buy-to-let investors is that in the long term, troughs can be ironed out.

Rising house prices, housing shortage and competitive buy-to-let mortgages are a powerful combination for property investors

Right now, rising house prices across the UK, alongside a serious shortage of accommodation, means that buy-to-let is a popular proposition for investors. Many people, particularly young adults, are still struggling to get onto the property ladder yet still require housing, so the rental market is in full swing.

Buy-to-let mortgages can also be found at competitive rates, and some don't require a high deposit.

Since the pension reform, many pension holders over aged 55 have opted to withdraw from their pension to act as a deposit investment for a buy-to-let property. There is a tax implication for pension withdrawals over 25%; however, with the right tax planning, tax can be minimised through careful planning around other income streams.

Working with a financial adviser who can look holistically at all options available will ensure that timing is planned around tax and investment efficiency.

Tax benefits of buy-to-let

Generous tax breaks for buy-to-let property investors have also been another key selling point for this type of investment; as if structured correctly, tax can be minimal whilst equity in the property grows.

In the recent 8 July 2015 second Budget, it has been announced that tax breaks are to be capped. This may affect some investors; however, others can continue to reap the benefits of this lucrative investment.

Consider all your options and make your income work for you. Contact the team at Dental & Medical Financial Services for a retirement planning meeting – the sooner you start to plan for your future, the more effective the results. Tel: 01403 780770

The above does not constitute advice and advice should be sought in all instances before acting on it.

Don’t leave your financial future to chance. Work with professional advisers who know your industry inside out and can help you build and protect your wealth whilst saving tax.

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

Dental and Medical Financial Services Limited is an appointed representative of Best Practice IFA Group Limited, which is authorised and regulated by the Financial Conduct Authority. Company registered in England no. 9158580 Registered office: 1 Market Square, Horsham, West Sussex, RH12 1EU.