

New light on pensions

Nick Ledingham gives guidance for all NHS dentists.

Have you remembered to check your pension contributions recently?

New guidance¹ has recently been issued by NHS Pensions to clarify three areas which proved to be potentially confusing



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following the introduction of the 2006 dental contract. These areas are the pension rights of NHS principals operating through limited companies, the pension rights of associates/performers operating through limited companies, and the paperwork which deals with the allocation of the contract earnings between the different performers.

1. Pension rights of NHS principals in limited companies.

The changes in the Dentists Act in 2006 allowed dentists to incorporate freely. For some principal dentists incorporation led 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 per cent 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.

This 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.

2. Associates /performers in limited companies.

The new guidance issued by NHS Pensions has clarified that associates/performers who operate as a limited company cannot belong to the National Health Service Pension Scheme (NHSPS) and has set a deadline for disincorporation.

The National Association of Specialist Dental Accountants and Lawyers broke the news in March that associates/performers who incorporated would not be entitled to the benefit of NHS pension contributions for work undertaken through their limited company. Now a deadline of November 7, 2011 has been set and from that date onwards, subject to Parliamentary approval, associates/performers operating through limited companies will forfeit their pension entitlement on fees paid to their limited company.

Some of the tax savings arising from incorporation are lost, or the very valuable benefits arising from contributions to the NHS pension scheme are reduced.

As long as the associate/performer ceases to use the limited company by the deadline, they will be allowed to remain in the NHSPS and retain in full any pension that accrued to them between April 2006 and November 2011.

3. Annual Reconciliation Report.

Nasdal accountants have been concerned for some time that there has been confusion over the allocation of pension contributions between different performers within NHS contracts, and that as a result many performers have potentially been receiving incorrect pension contribution allocations. It is understood that last year some 3,000 NHS associate/performers dentists were allocated little or no pension contributions at all.

The reason for the confusion has been the guidance on the completion of the Annual Reconciliation Return (ARR) forms which allocate the fees under the contract, and hence the pension contributions between the different performers. This is an issue which Nasdal has highlighted in the past. Sometimes the ARR is

filled in incorrectly, but associates/performers are not checking their annual SD86C form (which gives details of their annual pension contributions) and frequently they are not being advised properly.

In large multi-performer practices, it can be difficult for principals to fill out the ARRs accurately. Dentists with a Nasdal accountant are offered help with the completion of the ARR, so that the form can be filled out correctly.

The good news is that the ARR and the associated guidance is going to change. Nasdal is pleased to be working with the British Dental Association and NHS Pensions and we hope that all confusion will be eliminated so all dentists can get the pension to which they are entitled.

The new guidance can be found at the link below and, at the time of going to press, is due to be enshrined in legislation in November.

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