A number of changes introduced by the 2009 Finance Act could have a significant effect on the amount of tax payable by dentists and as a consequence careful consideration is required if a practitioner is to minimise liabilities to both income tax and class 4 national insurance contributions.

Capital expenditure
In addition to the 100% allowance for the first £50,000 spent on plant and machinery, known as the Annual Investment Allowance (AIA), there is a new first year allowance (FYA) of 40%. This does not have a monetary limit but is available only for qualifying expenditure incurred in the 2009/10 tax year, so time is fast running out!

Qualifying expenditure of £130,000 incurred on or before 5 April 2010 will attract an AIA of 100% on £50,000 and a FYA of 40% on £80,000, effectively doubling the tax reduction. If you are considering major expenditure later this year, it may be worth bringing it forward to the current tax year ending on April 5th.

The same amount of capital expenditure incurred on or after 6 April 2010 for an unincorporated practitioner would only generate a writing down allowance, initially of 20% on £80,000. This new FYA could create a loss which could be carried back for up to a maximum of 3 tax years.

Reduction of the personal allowance with effect from 2010/11
An individual is entitled to a full amount of personal allowance provided that individual’s adjusted net income (ANI) is £100,000 or less. If the ANI exceeds £100,000, the personal allowance (PA) is reduced by £1 for every £2 of the excess. Consequently if an individual’s ANI amounts to £104,450 the PA allowance is £6,500 for the 2010/11 tax year, the PA will be reduced by ½ x £4,450 ie £2,225. If a dentist’s ANI amounts to £113,000 no PA would be claimable.

It’s important for every dentist to be aware that the effect of this restriction is to create a marginal rate of income tax of 50%. If a dentist’s income is between £100,000 and £113,000, the marginal rate of tax will be 50%.

Limitations in relief for pension contributions
With effect from 2011/12 relief for pension contributions will be reduced for those with incomes between £150,000-£180,000 and those with incomes in excess of £180,000 will only be entitled to relief at the basic rate of income tax. To prevent taxpayers circumnavigating the new rules by manipulating their income and pension contributions in advance of the new rules, anti-forestalling provisions were introduced with effect from 22 April 2009.

Tax relief on pension contributions made after 8 December 2009 will be reduced only where the dentist has changed their existing pattern of pension contributions and total contributions in the tax year exceed £20,000. The reduction in tax relief is effected by way of a Special Annual Allowance charge which in 2009/10 charges tax at 20% on pension contributions to which it applies and in 2010/11 charges tax at a rate such that the tax relief is reduced to, rather than by, 20%. This tax will be collected via the normal self-assessment system.

Far from simplifying the tax system these changes only serve to complicate a dentist’s tax affairs. On a positive note, however, if you are incurring capital expenditure act swiftly, you still have the option to reduce your tax bill significantly in the current financial year.