AISMA Guide to...

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BECOMING A GP PARTNER

Contents

Foreword

Becoming a partner in a GP practice is one of the most significant steps you will take as a family doctor.

My own route into partnership began when I became a trainee and then a salaried GP in the practice where I am now a partner. Since then I've had the opportunity to develop my career in many directions, both within the practice as a GPwSI and through roles with the local primary care network and clinical commissioning group.

One of the many benefits of GP partnership is, of course, the potential to increase your income.

FOREWORD

With that comes the need to build your financial knowledge to help you understand not only your own personal tax position, but the financial workings of the practice as a whole.

This is where the services of the practice accountant come into play and building a good relationship with your accountant from day one will be very helpful. They will help you deal with the surprises that will inevitably come your way. In my case this came in my second year as a partner when the tax payment on account and balancing payment came together. In spite of saving some money for tax I had underestimated the amount (setting aside 40% of your income to pay your tax bill is, I now know, essential).

A switch to partnership may offer some surprises, but by choosing a good partnership, and with the support of the team around you, it could prove to be exceptionally rewarding.

This guide will help get you started on the road to acquiring the business and finance knowledge you will need as a GP partner. It has been written by a team of expert specialist medical accountants who understand the intricacies of primary care funding and how a practice business operates.

For anyone considering partnership in a GP practice it is essential reading.

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Introduction

Are you considering partnership as the next step in your career as a general practitioner?

There are many reasons for making a long-term commitment to a GP practice. Getting to know your patients and their families; understanding the needs of the local population; shaping the way in which care is provided – all of these aspects of working in a partnership can be rewarding and fulfilling.

Grasping the financial and business aspects of contributing to a GP practice, however, can be daunting.

The best course of action is to tackle these head-on. This guide has been written to explain some of the key business areas you will be involved with as a partner, so you have a thorough understanding of the financial pros and cons before joining a practice.

Chapter 1

What does being a partner mean?

GPs have worked together in partnerships since before the establishment of the NHS in 1948. Being a partner means sharing ownership and decision-making for the practice.

GP practices are managed by the partners on the basis of 'joint and several liability'. This means you are responsible for repaying any debts individually, as well as being responsible as a group.

As well as sharing the profits of the practice, partners share responsibility for the practice expenses, including the wages for the staff the practice employs and the bills paid to keep the practice running.

GP partners are responsible, with their other partners, for the contract the practice holds with the local health authority (CCG in England, local health board in Wales or Scotland or health and social care trust in Northern Ireland) to organise and provide care for the practice's list of registered patients.

Becoming a GP partner means having the opportunity to gain a unique understanding of the health needs of your patient population and working with your partners to shape local service provision.

Importantly, becoming a GP partner means you can build long-term relationships with your patients and offer continuity of care to them and to their families.

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Contributing to the partnership

The ideal GP partnership creates a close relationship and fellowship between the partners.

Each partner will be aware of the personal goals of their fellow partners. Cooperation and connection will allow the flexibility for each partner to not only undertake their responsibilities to the practice, but also follow their personal aspirations.

Playing to your strengths

All partners have a joint responsibility for all areas of the practice but there are various roles in the practice where a specific partner is expected to take a lead. An assessment of what each partner views as their strengths is a good place to start when allocating these roles.

If you are skilled with figures the finance role may be a good fit. If, on the other hand, you enjoy interacting with colleagues and the wider team, then employee management will be an obvious role.

There is room too for partners to contribute with special clinical interest skills. If you have an interest in, say, dermatology, the practice could develop a specialist service for patients. If, however, a dermatology service is not the right fit for the practice, you could continue to develop the specialism outside your practice commitments.

Whatever your skill sets and those of your partners, honest and open communication is key to enable you to support each other and ensure the partnership is kept in good shape.

Sharing the profits

The flexibilities that come with working as a GP partner, including developing your career according to your skill set and aspirations, are likely to mean that the number of sessions worked in the practice varies between partners. Some will work more sessions, others less, and the way the profits are shared should reflect this.

If you or your partners change their working arrangements, for example adding or dropping a session, this is likely to affect the overall running of the practice and the way in which profits are shared. Changes need to be negotiated and discussed by all the partners so that everyone is happy with the new arrangements.

Partnership agreement

According to BMA guidance the partnership agreement is vital in order to establish profit shares. This is because unless there is clear evidence to the contrary, all partners are deemed to have equal profit shares.

Any prior shares of income or expenses should be included in the partnership agreement (see Chapter 7) and if partners take on other responsibilities the profit share should be able to be changed. Prior shares might include things like notional rent and premises loan interest allocated in property owning ratios. Other prior shares could be one-off additional extended access sessions and, prior to 31 March 2020, seniority. These are income or expenses streams not shared according to the underlying profit shares.

Holidays, parental leave, sabbaticals and study leave would need to be considered in the agreement to ensure the burden of extra work on the remaining partners is equitably shared and that they are compensated financially.

Your responsibilities as an employer

When you become a GP partner you become an employer, alongside your partners. The staff the practice employs are there to help facilitate the provision of primary care to patients, whether from a clinical or administrative

Chapter 2

perspective. Without your staff you will struggle to concentrate on your clinical obligations.

Being an employer brings many responsibilities and a duty of care is owed to all employees legally and morally to ensure their health, safety and wellbeing. If partners can demonstrate that they care for their staff's physical and mental health, their commitment and trust will flourish. The benefits to the partnership will be improved efficiency and engagement in the goals and aspirations of the partners.

Partners must show that they are adhering to their duty of care and ensure that procedures and protocols are clearly defined and available to employees.

Legal requirements as an employer

You and your partners must be up to date with the legal requirements around employment. These will include having employer's liability insurance in place, ensuring employees are paid at least the national minimum wage and have a legal right to work in the UK. DBS checks, terms and conditions in writing, compliance with HMRC payroll and NHS pension requirements will all need to be managed.

Much of this can be delegated to the practice manager or third-party support but it is important to recognise that as a partner you must take overall responsibility for staff management with your fellow partners.

"If partners can demonstrate that they care for their staff's physical and mental health, their commitment and trust will flourish"

Management commitment

Management commitment from the partners is the essential ingredient for creating a culture and environment for continuous improvement.

Being a successful leader may require a certain element of sacrifice of personal freedom to ensure the practice can achieve its maximum potential. It will take time and effort to acquire a good knowledge of the organisation so that you can play your part in making sure the practice is heading in the right direction.

Not all partners will be the natural leader in their practice, but you should support each other to provide the appropriate management commitment required to sustain the partnership for the future and for your own personal reward.

Chapter 3

Your management role in the practice

For your practice to be successful all the partners must work together to make sure they are fulfilling their roles to the best of their ability. Each partner will have varying strengths and weaknesses. Identifying these will be key to making the partnership run smoothly.

As a partner you are obliged not only to consider your own financial security and interests, but also those of your partners, staff and patients who rely on the practice to keep running. A candid assessment between the partners of the managerial responsibilities required will help allocate the right partner to the right role.

Here are the main areas where a partner will need to take a leading role:

Finance

If the partnership does not keep the finances under control, it will not be able to compensate the partners or the practice staff. Monitoring costs and income is necessary if the practice is to remain financially solvent.

For example, if the partners decide to reduce their work commitment, costs may increase if staff are recruited. If this is not reflected in the partners' drawings, potential working capital issues lie ahead.

It is essential the practice claims for all income due for work undertaken. A robust accounting package will mean the accounts reflect the reality of the practice's financial position – not only from a profit perspective but also to keep the tax situation on track.

A good practice manager is a valuable tool in helping maintain the financial integrity of the day-to-day running of the practice, but this responsibility should not be completely delegated away by the partners. There have been some particularly costly incidents of practice manager frauds where the partners have abdicated responsibility for financial matters.

Strategic planning

If a practice stands still, it will miss out on the opportunities available. The partners must think long-term as well as dealing with the ongoing operational issues of the practice.

Regular discussions should be held by the

Chapter 3

"From the reception staff greeting the patients, to the nurse triaging them, and the cleaner who ensures the building is clean, all individuals are vital to the smooth running of the partnership "

partners to establish goals and aspirations so that the partnership is steered in the correct direction. Harnessing the enthusiasm of your more entrepreneurial partners will encourage the practice to grow and hopefully increase profits.

Negotiating contracts and marketing

A financially strong practice will have an eye on what income streams are available in their locality and be able to bid for contracts if they are the correct fit for the practice. If you are managing this aspect of the partnership you will require effective verbal communication skills and an ability to build rapport with others. Implementing the correct course of action needs decisiveness and preparation.

Managing day-to-day issues

This job is usually delegated to the practice manager but as partner and owner of the business, you need to ensure that the lines of communication are always honest and open.

If the partners are not aware of decisions made, then they are unable to keep their finger on the pulse and the partnership will suffer.

Personnel and employee management

A practice is made up of more than just the partners. From the reception staff greeting the patients, to the nurse triaging them, and the cleaner who ensures the building is clean, all individuals are vital to the smooth running of the partnership.

Staff costs are usually the biggest cost within a partnership and identifying the most efficient use of this essential resource is vital. If staff are unable to develop within their role they will not stay long.

A motivated worker is invaluable in helping the culture of the organisation to be positive and vibrant. Partners need to know their staff and ensure that the correct steps are taken to hire and retain the individuals who will be a good fit within the practice.

Regular appraisals should be held to establish the development needs of staff members and encourage their input to improving the practice.

Chapter 4

Buying into the practice

A condition of joining a practice as an equity partner, which means that you receive a share of the profits, is that you buy in.

There are two elements to buying in:

Fixed practice assets

You will need to buy your share of the practice assets, which might include the surgery premises, fixtures, fittings and equipment.

The practice assets are recorded in the partner capital accounts.

Working capital

You will also be expected to provide your share of the working capital required to meet the day-to-day costs of running the practice.

This is recorded in the partner current accounts.

Your share will be based on the amount of working capital required by the practice as a whole. It will be calculated by either:

- Applying your share of profits to the amount of working capital required by the practice

OR

- Calculating a fixed contribution from each partner

There are pros and cons for each method - the practice accountant should be able to advise on the best approach for you.

Finding the money

These days it is unlikely that the practice would ask you for a lump sum on joining the practice since few doctors have the necessary savings available.

Instead, a bank loan might be arranged to fund your fixed assets in the practice (tax relief is available on the interest paid on any borrowings). See Chapter 5 for more detail.

To build up your working capital at a more manageable rate, you could agree with the other partners to reduce your drawings for a year or two and have the balance allocated to your partner current account. Your working capital will be identifiable in the practice accounts and can be paid back when you leave the practice.

Chapter 5

Premises

When you become a GP partner you take on some degree of financial responsibility for the surgery premises. The surgery may be rented from the NHS or a commercial landlord, or it may be owned by the partners.

Renting

If the practice operates from rented premises you and your partners will need some type of legal agreement that guarantees your right to occupy them. This is usually in the form of a lease covering:

- How long the practice has a right to occupy the building and is obliged to pay rent
- Whether or not the practice can break the lease at any point
- Which part of the building the practice has the rights to
- How the rent may increase
- Who is responsible for external decorating and repairs
- How internal services are managed and the costs shared
- What the obligations of the practice are when you hand back the building

If the practice is occupying rented premises and there is no formal lease in place, seek specialist legal advice to make sure any necessary paperwork can be drawn up.

Rent reimbursement

If District Valuer Services and the health authority agree that you are occupying a building of an appropriate size and paying a market rent to the landlord, you will be eligible to receive a full reimbursement of the rent. That means that effectively, you occupy the property rent free.

Obligation to the landlord

Probably the most important thing for you to consider if the practice is in a leased building, particularly one leased from a commercial landlord, is that you will be obliged to pay the rent until either the lease expires, or you reach a lease break point (if there is one).

This obligation will continue even if the practice is unable to continue and hands its NHS contract back, in which case the entitlement to receive rent reimbursement would cease.

Long term obligation is causing many GPs concerns and NHS England/Improvement is currently considering the provision of a backstop by guaranteeing to take on lease responsibilities if a practice cannot continue. However, this is only likely to happen for buildings that are regarded as strategically important.

Owning the premises

If the premises are owned by the partners the value may well change over time, typically slowly increasing in value.

As partners come and go it is normal practice for the surgery premises to be revalued each time there is an ownership change, although if there are several changes in fairly quick succession the partners may all agree to use the same valuation.

The valuation should be done by a suitably qualified and experienced surveyor, preferably one who specialises in GP surgeries. It also makes sense for the same surveyor to be used on an ongoing basis to ensure the valuations are prepared consistently.

Basis of valuation

The basis of valuation will normally be specified in the partnership agreement. Typically, it will reflect the value as a GP surgery based on the rent currently being received. This usually produces a higher value than open market value for alternative use.

If, however, the building is one where there are significant questions about it remaining fit for

purpose, then the valuation may be based on the open market value. This would not be popular with the existing partners who may have bought in at a higher value.

Depending on the location, there may be situations where the building is more valuable for alternative uses. Examples might include a surgery on a very large plot that would be suitable for development, or a surgery in part of a large residential building in an affluent area of London. In this situation the partnership agreement might require that the valuation is based on the higher value.

Funding

It used to be the case that when a partner bought into their practice premises, they needed to arrange their own finance. While this is still possible, it is now more common for the funding to be arranged by the practice as a whole, and for a single partnership loan to be taken out and shown in the partnership balance sheet. This approach has two benefits:

"...it is now more common for the funding to be arranged by the practice as a whole, and for a single partnership loan to be taken out and shown in the partnership balance sheet"

- Part of the loan may be taken out on an interest only basis, minimising the monthly payment to the bank
- The part of the loan that is taken out on a repayment basis will typically be taken out with a long repayment period, perhaps 25 years

If you take out your own loan it is likely that the whole loan would have to be on a repayment basis, with the term reflecting your age at the point the loan was arranged.

Last partner standing

In recent years many practices have found it difficult to recruit new partners. Existing partners, not wishing to find themselves as the last partner in the practice, have considered merging with other neighbouring practices.

These mergers need to be considered very carefully, however, to make sure that they are going to result in a stronger combined practice, not simply a bigger risk.

One practical safety net is to have a last partner standing clause added to the partnership agreement. This states that if the retirement of a partner results in having less than, say, four partners left, then any of the remaining three partners could opt to terminate the partnership.

This would result in the contract being handed back to the NHS and liabilities for staff redundancy and so on crystallised. These liabilities would be shared amongst the four partners, not potentially left to eventually fall on the shoulders of the last partner standing.

Chapter 6

Business knowledge

The shift from being a salaried doctor or a self-employed locum to GP partner is likely to involve a steep learning curve. You will suddenly be faced with being a business owner and all that this entails.

Key areas you will need to get to grips with include tax, pensions, accounts and capital requirements, including how much you might be required to pay into the practice when you become a partner (see Chapter 4).

The practice accounts are the main starting point. Every GP practice has to draw up annual accounts, for which all the partners ultimately take a share of responsibility (ask your accountant for a copy of the AISMA publication: *Explaining the GP Practice Accounts*).

Review the accounts before accepting a partnership offer

When you first consider taking a partnership in a practice, ask the practice accountant to explain the accounts and what the figures represent. Alternatively, ask for a copy of the last set of accounts and ask for some independent advice from a specialist medical accountant who can guide you through the main points.

There is a lot of information in the practice accounts but the two key statements are the balance sheet and the income and expenditure report.

Balance sheet

The balance sheet is a snapshot of the practice's net assets at the accounting date. The net assets are a mirror image of both the property capital accounts, reflecting the partners' interest in the surgery premises (if they own them), and the partners' current accounts, which reflect the partners' other assets in the practice.

The partners' current accounts state the partners' share of the profits, less what they've drawn out in the year.

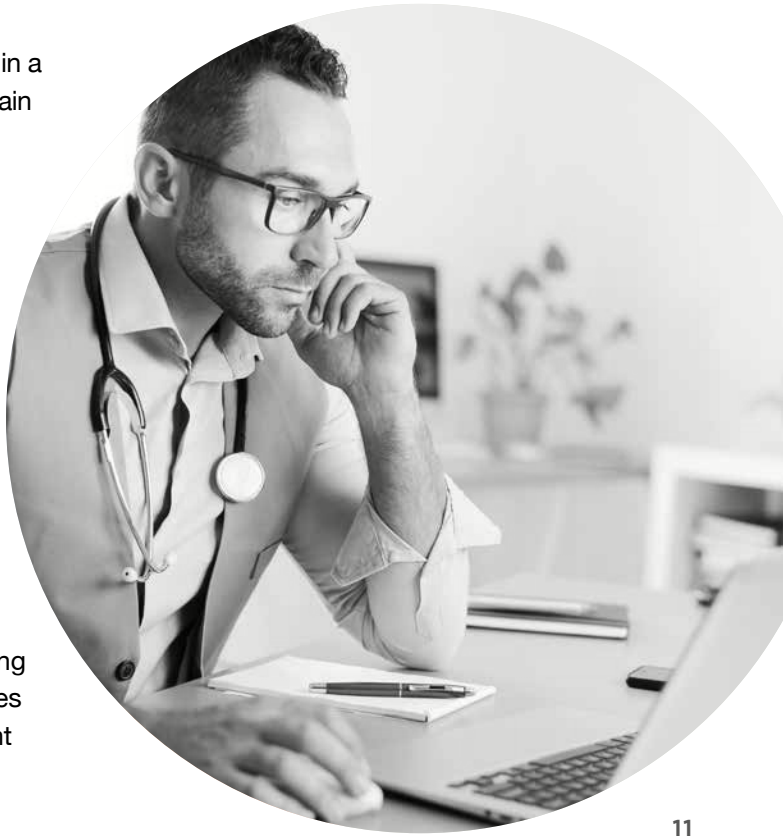
Working capital accounts also sometimes feature and represent sums which partners do not draw out, but instead retain in the practice to meet day-to-day requirements and keep the business running.

Income and expenditure report

The income and expenditure report sets out the income earned and costs incurred by the practice each year and presents the practice's overall profit for the period. Supporting notes in the following accounts pages break down the information in more detail.

Calculations are provided within the accounts to show how the practice profit has been divided between the partners. It is important to note that this may not necessarily be a straight percentage.

Often, certain sources of income (or costs) are



prior allocated to some partners before the balance remaining is split in the profit sharing percentages. The partnership agreement should contain the details about how profits are to be shared.

Your earnings from the practice

It is not possible to be completely accurate in forecasting practice profits at the start of or during the year. Therefore, you and your fellow partners will take drawings throughout the year, which are calculated on the previous year's profits. Once the full profits are known at the end of the year, a final balance can be taken (or paid back if drawings have exceeded profits).

It is very important for you to remember, therefore, that drawings are not the same as profits.

Budgeting

Find out how the practice prepares budgets and forecasts for the year ahead. There should be a strategic plan covering each area. For example, a forecast predicting month by month income and expenditure can be compared against actual figures as the year progresses.

With the help of the practice accountant drawings and profit projections can be prepared for all the partners to ensure that their individual current accounts are maintained in line with the sessions they work.

An annual forecast of pensionable pay will also help individual partners and the practice manager monitor contributions to the NHS Pension scheme over the year.

Comparing your practice with others

Comparative figures should be given in the accounts to aid understanding. In addition, benchmarking statistics are often provided to help you see how the earnings in your practice compare with others.

Taking an interest in how the practice performs and how improvements can be made, including efficiency, reporting and system controls, will help management of the practice's finances, budgeting and making key business decisions (ask your accountant for a copy of the *AISMA Guide to Preventing Fraud in Medical Practices*). It will also mean you feel engaged with the performance of the practice and contribute to its targets and future goals.

Tax

The practice accounts also provide the basis for how the tax is calculated on your share of the profits. You will pay tax twice a year, in arrears, and it is vital to save up for this, especially where profits are rising.

The practice accountant would be happy to explain to you how the taxation of a partner's profits works. This is especially important in the early years when tax liabilities can build up due to the time lag between starting as a partner and the first date on which HMRC will ask you to pay some tax. It is sensible to set aside the money regularly, as you earn.

There is more about tax in Chapter 8.

Pensions

Provision for your contributions to the NHS pension scheme (superannuation) are noted on the balance sheet in the practice accounts. Contributions are based on the profits from your NHS income, not on all profits.

Payments are deducted via the practice each month and during a "tidying up" at the end of the year when a GP Type 1 certificate of pensionable profits has to be submitted to the NHS pension scheme. Your accountant would normally prepare this for you.

The practice also has pension administration responsibilities for any salaried or locum GPs and also practice staff who are members of the NHS Pension Scheme.

There is more about pensions in Chapter 9.

Talk it through

Despite there being much to learn when first becoming a partner, a chat with the partners and the practice accountant should help clarify and explain the key issues.

If your practice allows you to sit in on finance meetings and year-end accounts meetings before you sign up to becoming a partner, this will also help get a better understanding of how things work from a financial perspective.

Chapter 7

Partnership agreement

The partnership agreement is the rule book, agreed and signed by all the partners, that sets out the main areas of understanding between the partners and how they work together. It is an essential document that will help resolve any future disputes and disagreements.

When you join a new practice the partnership agreement will need to be updated to set out the profit-sharing arrangements between you and your fellow partners. A specialist solicitor who understands medical partnerships should be asked to draw up the changes.

The agreement should be continuously reviewed, again with the input of specialist legal advice, to make sure that it reflects any other major changes in the practice.

Here are the areas that a partnership agreement should cover:

Partnership disagreements

Occasionally, however well you get on as partners, there may be disagreements and disputes in the practice. They might stem from personality differences, performance and commitment issues, practice policies, bullying or absence from the practice. The partnership agreement will state the correct procedures for dealing with these so that all parties are treated fairly.

The agreement should also cover the grounds on which a partner can be expelled from a practice. Without an agreement, the dispute could escalate, resulting in the need for legal advice and costly professional fees.

Partner changes

Partners leaving in swift succession can de-stabilise a practice, leaving the remaining partners with significant additional workload and financial pressures. The partnership agreement should outline the timeframe for partners leaving. It is usual for a minimum period, typically six months, between leaving dates.

Pay-out timings

Partners retiring or leaving the practice will expect the money they have invested in the practice assets, including their share in the surgery premises, together with any surplus working capital to be re-paid when they step down. The timing of these pay-outs should be outlined in the partnership agreement so that the outgoing partner knows the timing of the repayments and that both outgoing and incoming partners are aware of their

financial commitments.

This will also help practices manage their cash flow while the partnership change takes place.

Premises

If you are buying into the practice premises (see Chapter 3) you will expect a valuation to take place. The procedure for revaluations should be clearly outlined in the partnership agreement, including the number, basis and timing of valuations that will take place.

The route to resolving any premises disputes should also be outlined in the agreement.
If disputes arise it is often the surgery premises that are the cause. Unresolved issues can create major delays in the progress of any changes in the ownership of the premises.

Management and decision-making

Often there are varying levels of seniority within a practice, with the newer partners playing a more junior role. The partnership agreement should outline the roles and responsibilities you have agreed amongst your fellow partners, and state which of the partners have the authority to make decisions. This should include which matters require a majority vote and which require a unanimous agreement.

Accounts and profit-share arrangements

There are many different income streams in a GP practice and these are constantly changing. The partnership agreement should state the respective profit shares and prior shares of, or prior charges to, profit.

The treatment of partners' fees earned outside the practice is often an area for dispute and should be covered in the agreement.

"If disputes arise it is often the surgery premises that are the cause. Unresolved issues can create major delays in the progress of any changes in the ownership of the premises "

Absence

All the partners need to be aware of their entitlement to holiday, maternity, paternity, adoption leave, sickness absence and study leave. These entitlements should be set out in the partnership agreement.

If a partner is absent long-term from the practice, the agreement should indicate the impact on profit-sharing arrangements and who is responsible for specific costs in relation to the absence.

Any shortfalls are likely to lead to disruption and loss of profit.

Chapter 8

Tax

When you become a GP partner you will, for tax purposes, be considered to have started a new business on the date you joined the partnership. HM Revenue and Customs (HMRC) should be advised that you have joined the partnership. Also, if you have not already done so, you will need to register for self-assessment with HMRC. The practice accountant can assist you with this and provide the relevant forms.

Calculating your tax liability

The starting point for calculating your tax liability is the partnership accounts. The profit allocated to you in the accounts will be adjusted for:

- Non-allowable expenses, for example depreciation and private use adjustments
- Additional business expenses paid by you and not included in the accounts, for example professional subscriptions, motor expenses
- Capital allowances on partnership assets, motor vehicles, equipment, and so on.

Personal business expenses

When you join the practice (ideally before you sign up), it is important to establish the policy on your personal business expenses such as professional subscriptions, motor expenses and mobiles.

In some practices some or all of these expenses will be paid by the partnership, while in other cases you will continue to pay them yourself.

Make sure that if you incur any relevant business expenses yourself, that are not included in the partnership accounts, that you tell the practice accountant so that they can be included in the partnership tax return. Otherwise the partnership will lose out on tax relief on these expenses.

Submitting your tax return

You are required to submit a tax return for each tax year that includes your share of the partnership taxable profits. The information for your tax return will come from the partnership tax return, which will include the information from the partnership accounts, together with any partnership business expenses incurred by individual partners.

Your tax return will also include details of:

- Other taxable income, for example employment income, other self-employed income, company dividends and bank interest
- Tax reliefs, for example pension contributions and allowable loan interest

The tax return is due for submission to HMRC by 31 January following the end of the tax year. There

are penalties charged for tax returns submitted late, which start at £100 rising to £10 per day after three months. Further surcharges can be applied if returns are more than 6 months late.

If the practice accounts do not coincide with the end of the tax year your first tax return as a partner will need to include an estimate of taxable profits from the date you commenced as a partner to 5 April. Once the partnership accounts are completed, a revised tax return would then have to be submitted.

In addition to income tax you will also be liable for Class 2 and Class 4 national insurance on your partnership taxable profits.

Paying your tax

You will pay your tax in two payments which are due on 31 January and 31 July. In addition to income tax and national insurance payments you may also have to make repayments on any outstanding student loan repayments and child benefit payments received.

As a new partner there can be a substantial period between starting as a partner to making your first tax payment. For example, if you started on 1 April 2020 and the partnership accounts are made up to 31 March 2021, your first tax payment for the 2020/21 tax year will be due on 31 January 2022. If you are moving from an employed position, you will not have made any payments on account and therefore the full tax liability will be due.

In addition, you will have to make a payment on account for the following year 2021/22, which is calculated at 50% of your total tax and national insurance liability for the previous year.

The second payment on account for 2021/22 will be due by 31 July 2022 and any balancing payment due for that year will be payable by 31 January 2023, together with a payment on account in respect of the 2022/23 tax year.

Saving for your tax

Some practices retain a percentage of profits to assist with tax payments, while others will distribute all the available profits and leave the responsibility to each partner to save for their own tax.

"As a new partner there can be a substantial period between starting as a partner to making your first tax payment "

It is important as a new partner to understand the policy adopted by the practice since you are ultimately responsible for ensuring your tax is paid on time. Interest is charged on late payments on a daily basis and further surcharges can be applied if payments are more than 30 days overdue.

Student loan repayments on self-employed earnings (including partnership profits and outside locum work) will also be added to your tax bill and collected as part of your overall liability as this is the only mechanism to collect repayments. Although not tax, student loan repayments will form part of the payments HMRC will seek to collect, so it is important you save for this too.

Talk to your accountant

When you become a partner, ask a specialist medical accountant to prepare estimated calculations of your tax payments over the first couple of years. This will ensure you are aware of how much tax is due, and when.

Limited companies

Some GP practices may consider the use of a limited company to operate through because of the tax benefits. However, this is a complex area and specific advice should be sought from a specialist accountant.

See Appendix for more information on limited companies.

Chapter 9

Pensions

The NHS Pension Scheme provides a guaranteed income in retirement for members of the scheme, based on their pay. It is a defined benefit scheme and is open to anyone working in the NHS, including the GPs and staff working at your practice.

GP partners, salaried GPs, locums and staff members all contribute to the NHS Pension Scheme in different ways. Contributions are based on pensionable NHS pay.

The partners of the practice are responsible for making sure the pension arrangements for everyone working at the practice are managed effectively.

How your pension contributions are calculated

As a partner your pensionable pay is your NHS profits calculated from the practice accounts. Non-NHS income (and a portion of associated expenses) is excluded so it is important that this is separately identified in the accounts.

The rate of your employee contributions will depend on the level of your pensionable pay.

You will pay both employee contributions and employer contributions.

You are likely to have a variety of pensionable pay sources and calculating contributions and managing the paperwork is a highly complex affair. The practice accountant will play a major role in helping you and the other partners keep on track.

Paying your contributions

Pension contributions for the GP partners will be deducted from the monthly income paid to the practice by the NHS.

The practice is therefore paying a personal liability for the partners who are members of the NHS Pension Scheme which is in effect a drawing paid out on behalf of the partners. Both your employer and employee pension costs will need to be shown in the practice accounts as a deduction from your current account.

Practice staff

The practice (and therefore the partners) play a major role in administering the NHS Pension Scheme for the salaried GPs and staff working at the practice.

There are obligations, administration tasks, deadlines and forms to submit and the practice must have an appointed named person who is responsible for the day-to-day administration of the scheme within the practice.

Locum GPs administer their own paperwork and contributions themselves.

"The practice (and therefore the partners) play a major role in administering the NHS Pension Scheme for the salaried GPs and staff working at the practice"

More information

Go to the NHS Pension Scheme websites for more information for both employers and members of the scheme:

England and Wales: https://www.nhsbsa.nhs.uk/nhs-pensions

Scotland: https://pensions.gov.scot/nhs

Northern Ireland: http://www.hscpensions.hscni.net/hscpensions/

Chapter 10

Succession planning

Partners coming and going within a practice need careful consideration and a lack of succession planning can cause problems if the GPs do not allow enough time to think things through. The key to succession planning is to be flexible and have a robust plan.

Here are the main issues to consider when you come to retire:

Retirement date

This could simply be your birthday or the practice's financial year-end but consider the tax year too. Delaying retirement into the start of a new tax year could spread out the final tax payments due on your share of practice profits and might also be beneficial for your final pension.

If possible, consider various retirement dates to find the best option.

Payouts

How long it will take for you to receive your final pay-out from the practice will come down to what is stipulated in the partnership agreement and the date of the practice year-end.

Your percentage share of the surgery premises, shown in the capital accounts in the practice accounts, will potentially rely on funds available from re-financing or money coming in from a new partner.

The current accounts, showing the movement in profit for the year and your individual drawings, will need to be made up to your date of retirement or the year end, with your share of profit pro-rated.

It can be normal for a final pay-out to be agreed up to two years after retirement, once pension adjustments in the year following your retirement have been factored in.

Full or part retirement

You may want to consider reducing the number of sessions you work if you want to simply give yourself a better work/life balance, rather than retiring fully.

If this is the case, consider 24-hour retirement to obtain retirement benefits while reducing how much time you spend at the practice.

Replacing a retiring partner

If it is not you retiring but one of your fellow partners you will need to find a replacement.

Consider first how the practice will develop over

the next few years. There may be a suitable replacement within the practice. Promoting from within provides an opportunity for personal growth and will reduce the complexities of bringing in someone new.

There may also be the option for fellow partners to take on additional sessions to cover the retiring partner.

Bringing in a salaried GP or using locums may be a cheap, short-term option. However, these solutions do not offer much future-proofing or help with succession planning.

Consider becoming a teaching practice to train medical students and junior doctors. Effectively you could become an incubator for new partners.

If the retiring partner undertakes a service that no other partners are willing or able to take on, remember that losing that specific income should be considered in planning for a replacement.

Paying out the exiting partner

Where capital is owed to the retiring partner the practice will need to decide if it can pay it in one lump sum.

If no new partner is coming into the practice, re-financing may be required to release additional funds to allow the exiting partner to be paid.

A new partner coming into the practice may be expected to buy-out the exiting partner in a like-for-like scenario (see Chapter 4).

The practice accountant will be able to advise on the refinancing options available.

"Consider becoming a teaching practice to train medical students and junior doctors. Effectively you could become an incubator for new partners"

Appendix

LIMITED COMPANIES

Introduction

Some GP practices may decide to operate as a limited company, rather than as a typical GP partnership, perhaps because of a perceived tax or contractual advantage. A company limited by shares is also known as an incorporated business.

Approval is required from the primary care commissioner to move the medical services contract into a new legal entity.

Note that this may trigger a decision by the commissioner to competitively tender the contract in accordance with procurement law. It is likely that the new contract would then need to be an APMS arrangement.

Practices considering incorporation should seek specialist legal and tax advice since this is a complex area where the benefits of making the change need to be clearly defined from the outset.

Ownership

A limited company is a separate legal entity owned by its shareholders and managed by the directors. The directors, which in the case of a GP practice are likely to be the doctors and perhaps the practice manager, are responsible for the day-to-day running of the business.

The directors do not need to be shareholders and a shareholder is not necessarily a director. The profits of the limited company belong to the company and the directors make decisions about the payment of profits to the shareholders as dividends.

Incorporating a business can therefore allow other stakeholders to be involved in running the business as directors without changing the ultimate ownership structure.

A limited company can have a more corporate feel about it than a traditional GP partnership, with the directors running the business for the success of the business itself, rather than for the profits for the owners.

Liability

One of the main differences between a limited company and a traditional GP partnership is the liability of the owners. With a limited company the shareholders cannot lose their personal assets if the company is unable to pay its debts or as a result of actions the business has taken. It should be stressed, however, that well managed partnerships, while having unlimited liability, are at a low risk of being exposed to business liabilities.

Continued >>

Appendix

Transparency

So that another business can consider the viability of a business it may wish to work with, limited companies must make certain information about the company and its results available at Companies House.

Therefore, accounts have to be prepared in a statutory format and submitted annually to Companies House where they can be viewed.

Sharing out profits

Sharing out the profits in a traditional GP partnership is straightforward. The partners agree profit share arrangements and any specific income streams (or costs) that need to be allocated to particular partners. The partners also agree how to draw down those profits.

There is flexibility to change arrangements which is why professional partnerships (such as GPs and firms of solicitors and accountants) have historically used an un-incorporated model for running their businesses.

If a single-hander GP contractor decides to form a company and continues to run the business as the shareholder and director of the company, they would retain this flexibility, giving them the potential to decide how to take dividends to maximise their own personal financial position.

However, if there is more than one shareholder the profit share arrangements become more complex.

Each year, the directors will need to decide how to manage the profit share by agreeing and paying shareholder dividends. Shareholders are likely to hold shares in proportion to their profit share arrangement. For example, a GP shareholder/director working half time will hold half as many shares as a full-time GP shareholder/director.

With a limited company there is less flexibility to easily change profit sharing ratios and pay out specific income streams to certain GPs. These issues can be overcome by perhaps paying some profits as salary, although this may not be particularly tax efficient. Alternatively, different classes of shares may be used.

However, generally making changes to the profit share arrangements is not as easy as with the traditional partnership model.

Leavers and joiners

It is important to document what happens with leavers and joiners who would be expected to sell or buy their shares at the point they leave or join the practice. There are tax consequences of selling shares (since this involves selling an asset) which differ from a partner being paid out when retiring or leaving a partnership.

A joiner will be buying shares in the business at an agreed price and there needs to be a mechanism to agree the value of the shares. It is unlikely, however, that a limited company holding a GP contract would have a substantially different valuation from a partnership holding the contract in the same circumstances.

Continued >>

Appendix

Tax

A company is a separate legal entity and therefore it pays corporation tax on its profits - the current rate of corporation tax is 19% (2020/21).

This is often the perceived advantage by GP partnerships considering incorporation. This is because generally GP partners pay higher rate income tax of 40% on their self-employed profits, as well as the additional cost of National Insurance.

Note, however, that once the company has paid its corporation tax, the remaining profits still belong to the company and in order to get the money into the shareholders hands, dividends would have to be paid. Dividends are subject to tax at 32.5% in the higher rate tax band. In addition, any salary paid out to cover pension contributions (see below) will be subject to employers' national insurance. This is a cost that GPs operating through a partnership do not have to pay.

There are other allowances to take into consideration but overall if GP directors/shareholders were to draw all profits out of the company by way of dividends, then there is unlikely to be a significant saving in tax between the two models.

Since income tax on dividends is only paid when they are agreed and declared, the profits could be retained and sheltered in the company and taken over future tax years, structured to minimise the tax bills for individual directors/shareholders.

Pensions

The basis of calculation for NHS pensionable pay earned through a limited company follows the arrangements made for shareholders/directors to draw out income from the company.

Therefore, any remuneration policy for minimising tax exposure will affect the levels of pensionable pay and consequently pension benefits.

Tax relief for pension contributions paid in respect of eligible dividends is only available if the GP shareholder also has sufficient earned income from a salary or other self-employed sources.

Expenses of the company

A GP practice operating as a limited company can pay and claim tax relief on the same expenses as a GP partnership. However, there are tax consequences of paying personal costs for the directors that could be taxed as benefits in kind.

For example, if the company bought a car that was made available to the director privately, then although the company pays for the cost of the car, the director will be assessed for tax on the benefit of having a car provided by the company as "employer".

Personal expenses must be reviewed carefully as company provided benefits could land the directors with an unexpected tax charge.

There could, however, also be an advantage in using the company to pay for these costs. For example, there is currently a tax advantage in the company providing a new pure electric car.

Continued >>

Appendix

The process

The process of moving the practice into a limited company would not be straightforward and would incur additional expense. Essentially the assets are being moved from one business to another which would involve new bank accounts, new HMRC registrations, changing the employer of your staff, new legal agreements, notifying suppliers etc.

The practice would also have to apply for new CQC registration and a new NHS Pension Scheme employing authority number in order to continue running the scheme for staff. TUPE rules for employees would also need to be considered.

Any tax consequences of making the change need to be thought through carefully.

In particular if the GP partnership currently owns the premises, is it sensible to move that into the limited company structure and/or the same structure into which the contract is being transferred?

By moving premises into a limited company, the individual owners would be selling the property to that company (albeit the company probably owned by them). Therefore, the capital gains tax consequences need to be considered, together with stamp duty land tax payable and lease arrangements between the new entity that owns the premises and the incorporated practice (if they are not the same). Rent reimbursements may also change and this will need agreement with the commissioners to avoid a loss of income.

In addition, if there is a loan secured on the premises then that will need to be rearranged. Ultimately there are advantages and disadvantages in changing your business model. It is not a straightforward process and there will be costs involved. There should be clear reasons for the incorporation and all aspects considered.