

Doctors' expenses

i Contacts

Please phone:

- the number printed on page TR 1 of your tax return
- the SA Helpline on **0845 9000 444**
- the SA Orderline on **0845 9000 404** for helpsheets

or go to

www.hmrc.gov.uk

This helpsheet gives advice about the calculation of business profits that is of particular relevance to doctors and medical practitioners.

For a partnership it explains how to return details of:

- expenditure incurred by a partner on behalf of the partnership (in boxes 3.51 to 3.63 of the Partnership Tax Return)
- capital allowances claimed by the partnership on a vehicle (or other asset) owned by a partner (in boxes 3.13A to 3.21 of the Partnership Tax Return)

and, where appropriate, how such items are then reflected in the allocation of partnership profit between the partners. **For both individuals and partnerships** there is a reminder of the guidance on preparing medical accounts contained in the Department of Health's 'Red Book'.

More general guidance on the completion of the Standard Accounts Information section of the tax return can be found in Helpsheet 229 *Information from your accounts*, available from the SA Orderline.

Calculation of partnership profits

The rules for calculating the taxable profit made by any business reflect the sources of income making up that business. And where, for example, a medical practice is carried on in partnership, that practice is a single source for tax purposes, regardless of the number of partners entitled to share the profits of the practice.

It follows that the Partnership Tax Return for any business must contain all the information required to calculate the taxable profits arising from that business in any accounting period. This includes any claims (such as capital allowances) that must be taken into account when calculating the taxable profits.

It also follows that individual partners are not entitled to make any adjustments to the amount of partnership profit allocated to them for a particular accounting period. For example, the entry that a partner makes in box 7 of the *Partnership* pages of the personal tax return is the share of profit allocated to that partner in the Partnership Statement for the relevant accounting period.

Treatment of expenditure incurred by a partner on behalf of the partnership

The Partnership Tax Return for any business must contain all the information relevant to the calculation of the taxable profits arising from that business, including any expenses incurred by a partner on behalf of the partnership. **It is not possible for individual partners to make supplementary claims, whether for expenses or capital allowances, in their own tax return.** This is because expenditure incurred by a partner only qualifies for relief if it is made 'wholly and exclusively' for the purposes of the partnership business. And the only legal basis for giving relief for any such expenditure is as a deduction in the calculation of the profits of the partnership business.

Similarly, the only legal basis for giving relief for expenditure that qualifies for capital allowances is as a deduction in the calculation of the profits of the partnership business (unless there is a formal leasing agreement between the partner and the partnership, when the allowances will be due against the leasing income).

However, this does not mean that any legitimate expenditure incurred by a partner – *that is, any expense that would be allowable if met from partnership funds* – can only be relieved if it is formally included in the partnership accounts. Nor does it mean that capital allowances can only be claimed on vehicles, or other assets, that feature in the partnership accounts.

Providing that:

- any expenditure, or claim to capital allowances, is correctly calculated for tax purposes, and
- records relevant to those calculations are made and kept as if the expenditure, or assets, were part of the partnership accounts

we will accept entries in the relevant sections of the Partnership Tax Return which, though based on the partnership accounts, include adjustments for such expenditure, or allowances. But once the adjustments have been made the expenditure will be treated, for all practical purposes, as if it had been included in the partnership's accounts.

Where partners' personal expenses have been included in arriving at the figure of net taxable profit or loss and those expenses have not been included in the partnership's accounts, either:

- a corresponding adjustment should be made to the net profit figure in box 3.112 of the Partnership Tax Return, or
- the accounts figure should be entered in box 3.112 and a reconciliation given in the 'Additional information' box, on page 3 of the Partnership Tax Return.

Corresponding adjustments in the apportionment of taxable profit between the partners

Some partnership agreements, generally those relating to medical practices, provide that any expenditure incurred by a partner on behalf of the partnership, or any capital allowances due on assets owned by a partner, should be taken into account when the net profit of the practice is shared between the partners.

Where this is the case we accept that it is appropriate for a corresponding adjustment to be made in the allocation of net taxable profit between the partners, to ensure that a partner receives the benefit due under the partnership agreement. This adjustment will be equivalent to the expenditure incurred by the partner on behalf of the partnership, or to the amount of the capital allowances attributable to the vehicle (or other asset) owned by the partner but used in the partnership business.

Any such adjustments are analogous to 'fixed profit adjustments' for 'salary' or 'interest on capital' and should be identified as such in the Partnership Statement for the relevant accounting period.

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Example

Doctors John, Hook and Feelgood carry on a Health Centre practice in partnership together. Their partnership agreement requires profits to be shared 50:30:20 but each partner is entitled to an adjustment for any expenditure incurred on behalf of the partnership. No other 'fixed adjustments' are due.

The partnership accounts for the 12 months to 31 December 2010 include entries for:

Employee costs	£24,000
Premises costs	£12,000
Motor expenses	£7,500

The capital allowances due on the practice vehicles are £3,750.

The three doctors bear the full running costs of their own private cars, although the vehicles are used in the practice. For the 12 months to 31 December 2010 the running costs attributable to the practice were:

John	Hook	Feelgood
£4,000	£2,400	£1,900

Capital allowances are due (based on separate pools and adjusted for private usage) as follows:

John	Hook	Feelgood
£1,750	£1,420	£460 (balancing allowance on car disposed of) £3,000 (new car)

In addition, Dr John runs a small satellite surgery at home which is part of the partnership practice. Although the practice bears some of the costs directly, Dr John incurs some costs himself. These are:

Proportion of home running costs	£1,500
Wife's wages and pension payments	£8,000

Entries in the 2010-11 Partnership Tax Return

When completing the *Trading* pages of the Partnership Tax Return for 2010-11 the following composite entries are required:

Employee costs	£24,000 + £8,000	= £32,000 in box 3.51
Premises costs	£12,000 + £1,500	= £13,500 in box 3.52
Motor expenses	£7,500 + £4,000 + £2,400 + £1,900	= £15,800 in box 3.55

Capital allowances on motor cars	£3,750 + £1,750 + £1,420 + £460 + £3,000	= £10,380 in box 3.70
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The net taxable profit (box 3.73) returned by the partnership for the 12 months to 31 December 2010 was £120,000. This is allocated between the partners as follows:

Step 1: adjust for expenditure incurred by individual partners

Net taxable profit		£120,000
Add back	running costs of cars	£8,300
	capital allowances	£6,630
	surgery costs	£9,500

profit to be shared before individual adjustments £144,430

Step 2: allocate profit between the partners

	Totals	John (50%)	Hook (30%)	Feelgood (20%)
Profit before individual adjustments	£144,430	£72,215	£43,329	£28,886
Motor costs	(£8,300)	(£4,000)	(£2,400)	(£1,900)

Capital allowances	(£6,630)	(£1,750)	(£1,420)	(£3,460)
Surgery costs	(£9,500)	(£9,500)	0	0
Net share of taxable profit	£120,000	£56,965	£39,509	£23,526

When completing the Partnership Statement for 2010-11 the following entries are required:
£120,000 in box 11 (the total profit from this source)
£56,965 in the corresponding profit share box for Dr John
£39,509 in the corresponding profit share box for Dr Hook
£23,526 in the corresponding profit share box for Dr Feelgood.

Department of Health guidelines on the completion of the accounts of medical practices

Each year we carry out a survey of the income and expenses of medical practitioners on behalf of the Department of Health and the General Medical Services Committee of the BMA. The information from this survey is used to work out a ratio of expenses (including capital allowances) to income, which in turn is used to calculate the level of the profession's reimbursable expenses.

The Department of Health publishes the 'Red Book' which contains detailed guidance on the treatment of different items of income and expenditure in the accounts of medical practitioners. Of particular importance is the treatment of expenditure that is met either directly, or indirectly, by a Health Authority. This is because the treatment adopted influences the ratio of expenses to income derived from the annual survey.

Two key principles are identified in the 'Red Book':

- where a revenue expense (such as medical supplies, premises running costs, staff costs, or motor running costs) is met directly, or indirectly, by a Health Authority then:
 - the expense should be reported as the gross cost, and
 - the amount met directly, or reimbursed to the practice at a later date, should be reported as income.

The amounts should not be set off one against each other (so that only the net cost appears in the accounts)

- by contrast, where the practice receives a grant for capital expenditure (for example, computer equipment), **only the net cost of the capital asset should be reported in the practice accounts. Similarly, any capital allowances due should be calculated using the net capital cost.** (GPs and their advisers should refer to the 'Red Book' for the special rule precluding GPs from obtaining tax relief for any capital expenditure part-funded by an improvement grant from the Health Authority.)

Whether you are in practice on your own, or with others, it is in everyone's interest that the annual survey carried out by us is as accurate as possible. Therefore, you should ensure that the figures you enter in your tax return follow the detailed guidelines set out in the 'Red Book'.

These notes are for guidance only and reflect the position at the time of writing. They do not affect any rights of appeal. Any subsequent amendments to these notes can be found at www.hmrc.gov.uk