

The new GMS contract explained

Focus on....

Assessment of GP pensionable earnings

This guidance note has been produced by the General Practitioners Committee and the BMA's Pensions Department to help GPs and Local Medical Committees in understanding the new certification arrangements for declaring GPs' pensionable earnings for the purpose of assessing pension contributions. This is one of a series of guidance notes on the new contract.

The guidance applies to GPs (GMS and PMS) in England and Wales who are pensioned under the practitioner method, except for salaried GPs directly employed by a practice, PCO or trust out-of-hours provider. It is anticipated that the respective Pensions Agencies will be issuing similar arrangements in Scotland and Northern Ireland. Nevertheless, confirmation from the relevant Departments of Health and Pension Agencies as to whether the same process will be put in place is still awaited.

Background

The documents that have recently been produced by the NHS Pensions Agency for England and Wales include the Assessment Form to be used by GPs for assessing GP pensionable earnings, with explanatory notes and detailed instructions for its completion by GPs and their accountants.

This guidance summarises the main issues in the original NHS Pensions Agency documents but it is not an attempt to replicate all the details and so the original documents available on the Pensions Agency website (www.nhspa.gov.uk) must be read.

In addition, there are a number of frequently asked questions with answers on the Pensions Agency website and it is important these are considered too.

It is appreciated that there will be a considerable number of questions on this issue and the need to feed back on how this is working locally, and the focal point for this should be the NHS Pensions Agency, which has been asked to set up the mechanisms to gather this information via their website.

The changes to the process are substantial. The reason for the changes is because, since the new GMS contract came into force on 1 April 2004, GP pension contributions have been assessed on actual GP pensionable earnings, net of expenses for the year, that are declared to the Inland Revenue. The new arrangements first apply to income earned in 2004-05.

The new arrangements have been developed jointly between the NHS Pensions Agency for England and Wales, the Department of Health in England, the BMA and a number of medical accountancy firms.

Timescale

Each GP partner, non-GP partner and sole practitioner GP should submit the new certificate to their PCO as soon as they know their taxable profits to be submitted to the Inland Revenue and, at the very latest, within one month after the Inland Revenue's current deadline of 31 January each year. The purpose of this timescale is to allow PCOs the necessary time to complete their work and for Pension Scheme records to be updated for individual GPs by the end of May each year.

Assessment of pensionable earnings

Which profits will be assessed

Since 1 April 2004 with the introduction of the new GMS contract, GP pension contributions are assessed on actual GP pensionable earnings, net of expenses for the year, declared to the Inland Revenue.

The new arrangements first apply to income earned in 2004-05. Therefore, the first profits to be used are those relating to 2004-05. Thus, the calculation will be based on practice accounts with year ends between 6 April 2004 and 5 April 2005.

Where the year end is 31 March 2005, profits for this year and subsequent years can be used for the certificate with no amendments or further calculations required.

Where the year end is earlier than this, for example 30 June or 30 September, these profits will be used to assess and calculate pensionable profits for 2004-05. For practices with non-March year ends, GPs and their accountants will need to calculate their 'pension overlap profits' based on the declared assessable profits for 2004-05 and to enter this on the certificate. This is to ensure that such profits are only counted once for pension contributions and NHS Scheme benefits purposes only. Further details of this with worked-up examples are provided in the NHS Pensions Agency supplementary explanatory notes, as well as relevant frequently asked questions with answers that are available on the Pensions Agency website.

The GPC has already received a number of queries on this particular issue most of which are covered by the FAQs on the Pensions Agency website and, if not, have been passed on to the Pensions Agency as per the mechanism for feeding back queries noted above.

Calculation of pensionable profits

Only NHS profits count towards NHS Pension Scheme pensionable profits. Therefore, it is necessary to separate NHS earnings from non-NHS earnings and to treat the expenses differently (see below). The basic structure of the calculations on the certificate is as follows:

1. calculate GP total NHS income and non-NHS income
2. calculate GP (or GP/non-GP share of) total non-NHS income
3. calculate non-NHS income : NHS income ratio
4. calculate total expenses
5. calculate pensionable profits
6. calculate NHS Pension Scheme contributions.

Treatment of expenses

Given that non-NHS income will vary considerably between GPs, two different methods have been devised for calculating the allocation of expenses.

The standard method which will apply in most cases calculates the expenses element pro-rata between NHS and non-NHS work and only the element that applies to NHS income will be deducted from NHS profits.

The standard method should be used to calculate non-NHS expenses where non-NHS income is less than ten per cent of total income and where non-NHS income is less than £25,000 and where no practice expenses have been recharged either wholly or partly to an associated company. If any one of these provisions cannot be met, the alternative method must be used.

The alternative method requires a calculation to determine the expenses that cannot be attributed wholly either to NHS or non-NHS income which is added to those expenses that can be wholly attributed to non-NHS income, and together these expenses are added back into taxable profits as part of the calculation of pensionable profits on the certificate.

If neither method for allocating expenses produces a fair result, it is possible for an individual method to be devised, the methodology for which must be set out on the certificate.

IMPORTANT NOTES

1. It is assumed that all income and expenses should be reported in accordance with the accruals concept and that this will be applied in all accounting and pension calculations.
2. The SD86 form has been amended so that it now only details GMS income, and therefore care should be used if this form is used as a basis for completing tax returns.

Pension contributions

PCOs are already required to deduct an amount from contractors' monthly payments. This amount should represent a reasonable approximation of the proportion of PCOs' liability for employer superannuation contribution costs for partners or sole practitioner GPs who are members of the NHS Pension Scheme.

This amount should exclude earnings that would be recorded on form SOLO for payments that would not be paid into practice accounts. This is because employer and employee superannuation contributions will be forwarded each month to PCOs and so no further deduction should be required.

PCOs and practices should make end-of-year reconciliation payments so that the total payments made each year reflect the total liability under the Pension Scheme.

March 2005