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Tax amnesty for medical professionals - can you use it to save money?

January 2010

HMRC's 'Tax Health Plan' initiative to encourage tax disclosures by medical professionals registered with the GMC and dentists offers the chance to bring your taxes up to date at a low cost.

What is this about?

HMRC believes that some medical professionals fail to declare income and commissions from insurers on their tax returns and avoid paying tax on them. Naturally, it wants to stop this and the Tax Health Plan (THP) is being offered as incentive to own up and pay any related tax arrears at a relatively low cost. HMRC regards the discounted penalties on offer (fixed at 10%) as a cost-efficient way to collect tax arrears when compared to the cost of carrying out thousands of individual tax investigations.

However, HMRC now has the power to request tax related information from third parties in bulk. For the THP, we understand that it has already obtained a large amount of information from the NHS and insurance companies on payments made to individual doctors and consultants. Armed with this information it could launch tax enquires and carry out other enforcement activities against individuals who do not cooperate.

So this is a very simple carrot and stick approach by HMRC: it is offering a discount on penalties for those who come clean but, in the background, there is the threat of a full tax investigation for those who do not. Medical professionals who want to use the THP must act quickly and register with HMRC by 31 March 2010.

Users of the THP must report all undisclosed UK income and gains that arose in any of the last 20 tax years – for example, any undeclared rents from letting a property as well as undeclared medical earnings –

and the 10% penalty rate will apply to the whole amount. However, if anyone has always correctly declared all their medical earnings and commissions but not declared other UK income they will not be eligible to use the THP.

Income from overseas assets can also be declared through the THP but will not benefit from the 10% penalty rate – penalties of at least 30% (but potentially much more) are more likely for such income. However, medical professionals with offshore accounts may have other options.

Some may be able to use the current Liechtenstein Disclosure Facility (LDF) to disclose offshore income and gains at a 10% penalty rate. This would involve moving investments to Liechtenstein if you do not already have funds there but such transfers are only effective in terms of the LDF provided the offshore accounts involved were originally opened overseas (i.e. not through the UK office of an overseas bank).

Alternatively, medical professionals who have already registered for the New Disclosure Opportunity (NDO) before the deadline for that amnesty (4 January 2010) are likely to be better off using the NDO to disclose both their undeclared offshore income and any undeclared UK income from medical work.

For anyone with undeclared income from both UK sources and overseas assets it is vital to seek expert advice on which of the current amnesties is most cost efficient to use.

Is this an 'amnesty'?

The THP is not really a tax amnesty, users will still need to pay the tax and interest charges for paying it late, but they will save on tax penalties.

Where income or gains that were wrongfully omitted from a tax return subsequently come to HMRC's attention, it will usually seek to collect the outstanding tax along with interest (for late payment) and a penalty of up to 100% of the tax due, although, if the taxpayer cooperates, the penalty can be reduced. For taxpayers taking advantage of the THP, HMRC will guarantee:

- a standard penalty of 10% of the tax due if it does not arise from offshore assets
- no penalty where the outstanding tax is less than £1,000.

It should be noted that in cases where HMRC accepts that past tax irregularities arose as the result of an innocent error, tax penalties can be reduced to nil.

Are there any other advantages?

Bringing tax affairs up to date now means that the worry and cost of a detailed tax investigation at some future date is avoided.

While HMRC is not prepared to guarantee immunity from prosecution, anyone who uses the THP, is far less likely to be prosecuted than those who just wait for HMRC to catch up with them. Although some individuals making disclosures will be chosen for a more detailed investigation, if HMRC follows the pattern of the previous tax amnesties, it is likely that most disclosures will be accepted and the matter regarded as closed.

Who can use it?

Only medical professionals who are registered with the General Medical Council (GMC) and dentists can use the THP. However, HMRC plans to offer similar opportunities to other professional groups, including other health professionals, soon.

As with all the recent amnesties, individuals already under enquiry by HMRC or whose disclosure includes income from 'serious organised crime', for example, leading to a police investigation, are unlikely to be able to benefit from the THP terms.

The practicalities

The THP will be a three stage process. Firstly, users will have to apply for a registration number.

The second stage is to complete and submit the disclosure pack to HMRC. This will involve disclosing the income and gains not previously declared over the last 20 years, and then calculating the amounts of tax, interest and penalties payable. In most cases, users will be expected to send a cheque for the full amount due when the disclosure pack is submitted to HMRC.

The third stage involves HMRC reviewing the disclosure. If regarded as a low risk case and the calculations are considered correct and complete, HMRC will send an acceptance letter – this is expected to happen within a few months of the relevant submission deadline.

The deadlines

The registration period runs from 11 January to 31 March 2010. The completed disclosure pack must be submitted to HMRC by 30 June 2010 along with full payment where possible.

The last chance?

While HMRC has said that there are to be further amnesties for other 'professionals' they will be similar to the THP and focus on discrete sectors. Therefore, unless a medical professional also has a career in another profession, it is unlikely that further UK based tax amnesties will be available.

The only sensible option for medical professionals who have not fully declared past income is to make a full voluntary disclosure to HMRC using the THP.

For more information on the disclosure facility please get in touch with your local PKF tax investigation and dispute resolution expert at www.pkf.co.uk/invteam or your local PKF medical sector partner www.pkf.co.uk/medicalteam or email: taxinvestigations@uk.pkf.com

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