

# GMS<sup>1</sup> Superannuation Plan – Retirement Annuity Relief

## Pensions Manual - Appendix V

This document was last updated June 2017

### Introduction

This Appendix incorporates the contents of Tax Briefing articles which were concerned with the interaction of the GMS Superannuation Plan and Retirement Annuity Relief, starting with the most recent article.

Please also refer to [Chapter 21](#) (Retirement Annuity Contracts) and [Chapter 26](#) (Tax Relief for Pension Contributions: Application of Earnings Limit).

### Tax Briefing Issue 28 (October 1997) – GMS Superannuation Plan - Retirement Annuity Relief

#### Background

Section 12(3) Finance Act 1991 effectively provides that the GMS income of doctors who participate in the General Medical Services Superannuation Plan does not come within the definition of “relevant earnings” for the purposes of relief for retirement annuities under Section 235 Income Tax Act 1967. Where such doctors have effected approved retirement annuity policies in respect of private practice income, it is necessary to apportion the overall practice expenses between the non-relevant (GMS) receipts and the relevant (private practice) fees to arrive at the “net relevant earnings” for relief purposes.

#### Review

Following discussions with the Technical Committee of the Institute of Taxation, the method of calculating the allowable deduction for retirement annuity purposes has been reviewed. This article sets out an alternative method of calculating ‘net relevant earnings’ and retirement annuity relief in respect of private practice income

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<sup>1</sup> Now called Primary Care Reimbursement Service.

of members of the GMS Superannuation Plan. The alternative method as outlined may be applied for years 1996/97 onwards.

### Examples

The following examples will illustrate both the existing method of calculation and the alternative acceptable method of calculating relief, based on the following figures (£):

|   |               |
|---|---------------|
| GMS Receipts                            | 75,254        |
| [Capitation 49,960                      |               |
| Non-Capitation 25,294]                  |               |
| Private Practice Fees                   | <u>39,227</u> |
| Total                                   | 114,481       |
| Less: Expenses                          | <u>42,391</u> |
| Net profit                              | 72,090        |
| Capital Allowances                      | <u>2,413</u>  |
| <i>Profit net of Capital Allowances</i> | <i>69,677</i> |

### Existing Method of Calculation

#### Example 1

Under the existing method, the expenses of £42,391 and capital allowances of £2,413 will be effectively apportioned between the relevant earnings of £39,227 and the non-relevant earnings of £75,254.

This is achieved by applying the formula:

$$A \times B/C$$

where:

A is private practice fees of £39,227

B is profit net of capital allowances of £69,677

C is gross receipts of £114,481

Therefore \*NRE is  $39,227 \times 69,677 / 114,481 = 23,875$

(\*net relevant earnings)

Retirement Annuity deduction is  $23,875 \times 15\% = \mathbf{£3,581}$

#### Alternative Method of Calculation

Before setting out the alternative method of calculation, it might be appropriate to refer to the composition of the GMS income of £75,254 and here it will be seen that this comprises 'capitation' income of £49,960 and 'non-capitation' income of £25,294. In fact, the GMS Superannuation Plan contributions of 10% by GMS Payments Board and 5% by doctor members are made only in respect of the 'capitation' amounts. In this regard, it is acknowledged that the existing method (Example 1) does have a significant impact on the calculation of overall retirement relief in cases where the GMS income includes a relatively high proportion of non-capitation income.

#### Example 2

Using the same figures as in Example 1, the revised approach would be to firstly set the expenses of £42,391 against the GMS non-capitation income of £25,294 with the balance of £17,097 being apportioned between the GMS capitation income and private practice income as follows:

|                          |               |
|--------------------------|---------------|
| Expenses                 | 42,391        |
| Less: Non-Capitation     | <u>25,294</u> |
| Net Expenses             | 17,097        |
| Plus: Capital Allowances | <u>2,413</u>  |
| Adjusted Expenses        | 19,510        |

Private Practice Fees are £39,227

The amount of adjusted expenses attributable to private practice fees is:

$39,227 \times 19,510 / 89,187^* = 8,581$

(\*39,227 + 49,960)

Therefore the amount of private practice income which is available for retirement annuity relief is: 30,646 (i.e. 39,227 - 8,581)

Retirement Annuity deduction is £30,646 x 15% = **£4,597**

It will be seen that Example 2 provides for a retirement annuity deduction of £4,597 as against the amount of £3,581 in Example 1.

### Simple Formula

In relation to Example 2, the same result can be arrived at by a simple formula of:

$A \times B/C$

where:

**A** is adjusted profit after capital allowances

**B** is private practice fees

**C** is capitation fees plus private practice fees.

$69,677 \times 39,227/89,187 = 30,646$

Therefore \*NRE = 30,646

(\*net relevant earnings)

Retirement annuity deduction is £30,646 x 15% = £4,597

It is expected that this formula will be used in practice.

It should also be pointed out that the examples have been worked on the basis of a rate of 15%. The rate of 20%, where applicable, should be substituted, in accordance with the provisions of Section 13 Finance Act 1996.

## **Tax Briefing Issue 6 (April 1992) – 1.7 GMS Scheme for Medical Practitioners**

There is still some confusion regarding the treatment for retirement annuity purposes of practitioners' income from the "GMS Common Contract".

We would remind practitioners that **ALL INCOME** received under the common contract (i.e. captivation fees, practice support fees, fees towards documents etc.) is income from a pensionable office or employment, for superannuation purposes.

Accordingly, in determining “net relevant earnings” for the purposes of retirement annuity contribution purposes in respect of any practice income arising outside the common contract, **NO PART of the GMS income paid under the “Common Contract”** may be taken into account.

## **Tax Briefing Issue 5 (January 1992) – 1.4 Pension Scheme for Doctors in GMS - Tax Treatment of contributions.**

We dealt with this matter in Issue 3 - para 2.3 and in Issue 4 - para 1.4. However, we are advised that some practitioners continue to calculate retirement annuity relief on clients’ total profits without restricting them for the fact that the GMS fees are not longer relevant earnings for retirement annuity purposes. This can lead to significant additional liability and exposure to interest charges for clients. Accordingly, we would ask practitioners to refer to the earlier issues of Tax Briefing again and ensure the correct treatment is applied.

Incidentally, in some copies of Tax Briefing 3 an incorrect fraction was used in the example given in relation to GMS fees and retirement annuity relief. In case this was not noticed, we are reproducing the example, with the correct fraction!

### Example

Doctor with gross GMS fees of £50,000 (net of 10% health Board Contribution) and with gross private practice fees of £15,000. His overall practice expenses were (say) £25,000, leaving a net income from the practice of £40,000. Maximum retirement annuity relief for 1989/90 may have been claimed by reference to 15% of £40,000 whereas the greater part of this £40,000 does not consist of net relevant earnings.

Under the revised procedure, the maximum retirement annuity relief allowable in relation to private practice is calculated as follows:

Net relevant earnings

£40,000 x  $\frac{15,000}{65,000}$  = 9,230

65,000\*

Maximum retirement annuity relief = 9,230 x 15% = 1,385

\* i.e. the total gross fees (50,000 GMS + 15,000 private)

Neither the income nor the contributions in respect of the Pension Scheme for doctors in the GMS come into the reckoning. If retirement annuity premiums in excess of £1,385 were paid for 1989/90 any balance above the 15% maximum can be carried forward.

### **Tax Briefing Issue 4 (October 1991) – 1.4 Pension Scheme for Doctors in the General Medical Service - Tax Treatment of contributions.**

Some confusion has arisen as to the basis on which relief for contributions to the above scheme are allowable.

The contributions allowable for a year of assessment are the contributions paid in the basis period for that year. Accordingly, a doctor whose accounts are prepared annually to the 31st of March would qualify for relief in 1989/90 in respect of contributions paid in the year to 31 March 1989 (preceding year basis). With the change to a current year basis from 1990/91 in respect of contributions paid in the year to 31 March 1991. In the same way as the profits of the drop-out year (y/e 31 March 1990 in this example) do not come into the reckoning for assessment purposes, neither do contributions paid in the same period come into the reckoning for relief.

### **Tax Briefing Issue 3 (July 1991)– 2.3 Pension Scheme for Doctors in the General Medical Service - Tax Treatment of Contributions.**

Under Section 12 of Finance Act 1991 the Revenue Commissioners are authorised to approve the Pension Scheme for general practitioners within the GMS, who have accepted the common contract, as if it were an employer/employee type Pension Scheme. Although the scheme has not yet been formally approved by Retirement Benefits District, it is possible to outline the principal features of the scheme as they affect practitioners preparing tax submissions.

- Contributions to the scheme will be 15% of fee income viz. 10% contributed by Health Boards. 5% contributed by General Practitioners (GP)
- The contribution by the Health Board will not be regarded as part of the GP's Income.

- The GP's income under the common contract is treated for the purposes of retirement annuity relief (but not for assessment purposes) as derived from a pensionable office or employment. Retirement Annuity Relief will not be available against this part of a doctor's income. Retirement annuity relief will continue to be available against a GP's private practice income, subject to the existing limits.
- The income from the GMS (common contract) and the income from private practice will be arrived at by apportionment of the Case II income by reference to gross fees.
- Professional services withholding tax will apply to the doctor's contributions (5%), but not to the Health Board contribution (10%).
- The approval of the scheme as an employer/employee scheme will be retrospective to the date on which the Doctor came within the common contract.

The Common contract became available to GP's from 1/1/1989. If the application of the above has a material effect on Returns already made, (see example below) tax practitioners should contact the appropriate Tax District.

#### Example

Doctor with gross GMS fees of £50,000 (net of 10% Health Board contribution) and with gross private practice fees of £15,000. His overall practice expenses were (say) £25,000, leaving a net income from the practice of £40,000.

Retirement annuity relief for 1989/90 may have been claimed by reference to 15% of 40,000 - £6,000, which included the 5% contribution to the GMS Scheme of £2,500).

Under the revised procedure, the maximum retirement annuity relief allowable in relation to the private practice is calculated as follows:

Net relevant earnings £40,000 x 15,000 = 12,000

50,000

Retirement Annuity Relief = 12,000 x 15% = 1,800

The Contributions in respect of the Pension Scheme for doctors in the GMS do not come into the reckoning. If retirement annuity premiums in excess of £1,800 were paid for 1989/90 any balance above the 15% maximum can be carried forward.