

ASK THE EXPERTS

OUR PANEL OF SPECIALISTS ANSWER YOUR QUESTIONS

RAY PRINCE



Ray Prince is a fee-based certified financial planner with Rutherford Wilkinson and helps forward-thinking dentists plan for their

ideal retirement, as well as get the best deals on protection and investments. He speaks to groups of dentists regularly on all matters financial. www.medicaldentalfs.com

ALEX HALL



Alexander Hall is a commercial and corporate solicitor having specialised in acting for dentists, orthodontists, dental companies and LDCs

for some years. He assists in the purchase, sale and incorporation of practices, advises on associate, expense-sharing and partnership agreements and regularly gets involved with contract, breach notice, clawback and public law disputes with PCIs and LHBs. www.mfgsolicitors.com/dentists

ANDY MCDUGALL



Andy McDougall has over 25 years experience of business planning and brings techniques and expertise from a wide range of commercial

and competitive business sectors. Andy now delivers business-planning services to help members of the dental community to respond to the dynamics of an increasingly commercial and competitive environment. He helps businesses to reach the next level and to turn around poor performance. www.spoton-businessplanning.co.uk

GLENYS BRIDGES



Glenys Bridges is managing director of the Dental Resource Company, a Chartered Member of the Institute of Personnel Development,

founder and Fellow of the British Dental Practice Managers Association (BDPMA) and development advisor for the Dental Receptionists Network. Her current work centres on the development and promotion of post-qualification training for senior receptionists and patient care coordinators. www.dental-resource.com

INVESTMENT OPTIONS

Q I am looking to invest a lump sum, as well as a regular amount each month. I can't decide whether to choose an equities-based Individual Savings Account (ISA) or a personal pension. Which do you think is best?

Ray Prince replies:

A Without knowing your full circumstances, it's impossible to give you an accurate answer, however, hopefully we can give you some pointers in the right direction. On paper, the pension

appears to be the better option due to the tax relief you receive upfront on your investment. A £10,000 lump sum invested in an ISA would be worth £33,863 after 25 years, assuming a return of 5% a year, after charges.

For a higher-rate taxpayer, the £10,000 would be grossed up to £16,667 when investing into the pension. Using the same return as the ISA, this would be worth £56,440 after 25 years - a 167% increase over the ISA. The figures are even more attractive for 50% taxpayers and for those who earn more than £100,000 and less than £114,950. For the latter, it's possible to earn an effective rate of income tax relief of 60%, as earnings within these amounts suffer a gradual loss of the personal allowance, which is £7,475 in the 2011/2012 tax year (so if you earn £114,950pa you will have £0 personal allowance).

Using alternative example figures, were you to invest £4,000 into an ISA over 25 years, and assuming 5% pa after charges, you'd get back £13,545. If you invested the £10,000 gross into a pension (and assuming you received 60% tax relief, see above), the fund would be worth £33,863 - a 250% increase over the ISA.

Now, what you have to also consider is the access to your monies after the 25 years. With the ISA, you can access it all at any time and there is no further tax to pay. With the pension, while the end fund is bigger you can only access it from age 55. A quarter of the fund can be taken as tax-free cash (known as 'pension commencement lump sum'), with the remainder providing you with an income, usually in the form of an annuity. This income is then taxable in the same way that you pay tax on your earnings at the moment. Where the pension may have an advantage is if you are a higher rate taxpayer now and foresee being a basic rate taxpayer in retirement. That way you'll have

received 40% tax relief up front and only be liable for 20% tax on the way out. My advice is when looking to make any decisions, take all your financial affairs into account.

DEDUCTED PAY

Q I have just resigned as an associate and I am working my three months' notice. My principal wants to deduct 10% from the amounts owing to me over the next three months and retain that sum for six months to be used to cover his costs, in the event he has to carry out remedial work on the patients I treated. My associate agreement does not say he can do this. What is my position?

Alexander Hall answers:

A The standard recommended forms of associate agreement in common use do not include a right for a principal to unilaterally withhold payments in such a way. Doing this without the consent of the associate would, in such circumstances, amount to a breach of contract by the principal. The associate could threaten the principal with legal action for the withheld money (plus interest) and the recovery of the costs of doing so. However, that does not mean that the principal has no rights whatsoever in relation to defective, failed or negligent work carried out by the associate.

Many of the standard form agreements include obligations to carry out treatment with reasonable care and skill, to the accepted minimum standards and within certain rules (for example, GDC guidelines or the provisions of a GDS contract or PDS agreement). If they do not, principals should consider



Tax relief is an important consideration when planning long term financial investments