Tax guidance for junior doctors

Overview
Junior doctors can incur a number of costs during their training. This can include:

- Travel expenses
- Accommodation and relocation costs as a result of participating in a rotational training programme
- Pre-employment checks and subscriptions to professional bodies, colleges or associations and trade unions
- Fees for training courses, exams and certificates

Along with the student debt many junior doctors have, the rising cost of postgraduate medical training can create a concerning financial burden upon individual doctors. However, there are ways you can alleviate some of these costs with various tax relief options, and these are explained here.

This guidance covers the basics of how tax is paid, and the essentials of completing a tax return. It explains the types of expenditure that you can claim tax relief on and how to do this, as well as options for tax relief on your pension. It also includes different options for paying tax while working as a locum, and the tax implications of working abroad.

However, tax is a complicated area, and this generic guidance is not completely exhaustive. Specific advice is always recommended. If you would like assistance with a particular problem, please contact the BMA by calling 0300 123 1233. You can also email an adviser.

1. Tax – the basics

The UK’s tax and customs authority is Her Majesty’s Revenue and Customs (HMRC).

The UK tax year

The UK tax year runs from 6 April to the following 5 April. Taxpayers are assessed on their annual earnings on a tax year basis rather than a calendar year basis or a year of employment, which typically begins in August for most junior doctors.

Any forms or claims that you submit to HMRC must be completed on a tax year basis, so a year of employment beginning in August straddles two separate tax years.

Income tax and National Insurance rates

The rate at which income tax is charged depends on your level of income. Generally everyone is entitled to a tax free personal allowance where no income tax is charged and this is around £11,000. If however your income exceeds a certain level the personal allowance is proportionately reduced to nil. If your income exceeds the available personal allowance, income tax is charged at the basic rate (20%) up to a specific threshold — this changes annually but is around £32,000. Income tax is charged at the higher rate (40%) and in some cases the additional rate (45%) if the income exceeds the higher rate and additional rate thresholds.
You are charged for National Insurance Contributions on your income as well, and there are also different rates for this according to different income thresholds which are set each year.

Click here for the current income tax and National Insurance rates:
https://www.gov.uk/national-insurance-rates-letters

**PAYE tax codes**

HMRC collects tax due on employment income on a monthly basis through pay as you earn (PAYE). PAYE is operated using a tax code which an employer uses to calculate how much income tax to deduct from your gross salary and it is deducted automatically before you receive your net salary. The tax code includes the net allowances and deductions to which you are entitled and can include employment related expenses. The tax code is issued by HMRC and we would recommend that it is checked carefully as there can be errors.

Being taxed at source under normal PAYE rules is fine for many individuals as it is a simple process that doesn’t require you to do any accounting or tax preparation. However for doctors with additional sources of income, for example locum work, it may not be the most tax friendly way of working as you are restricted in the expenses you can claim — see ‘Tax relief for locum doctors’ for more information on this.

Click here for more information on tax codes and advice on actions to take if your tax code is incorrect:

**2. Tax returns**

Self-Assessment is a system HMRC uses to collect income tax. Tax is usually deducted automatically from wages, pensions and savings, but if, for example, you have other forms of income in some cases you must report it in a tax return.

**Do I need to complete a tax return?**

HMRC will not necessarily prompt you to complete a tax return, so you need to be aware of the various criteria that would require you to complete one. If your circumstances fit any of the criteria set by HMRC then you are legally required to submit a tax return.

For example:
– Do you have untaxed ad-hoc income of more than £2,500? This could include things like locum fees, crematorium fees and form filling fees
– Are you claiming employment expenses, such as annual subscriptions to the BMA, MDU or GMC, of more than £2,500 per year?
– Are you domiciled outside of the UK?
– Do you have savings or investment income of more than £10,000?
– Do you receive rental income from a property of more than £2,500?

If the answer to any of these questions is yes, you must register for self-assessment. Please note that this list is not exhaustive, click here for the full list of the self-assessment criteria:

**What are the deadlines for completing a tax return?**

If you need to send a tax return, you fill it in after the end of the tax year (5 April) that it applies to. You can log in and file your tax return online, or send a paper form. The deadline for submitting a paper tax return is 31 October following the end of the tax year whereas the deadline for submitting online is 31 January following the end of the tax year — but if you haven’t done an online tax return before, allow extra time as you’ll need to register first.

If you do not submit your tax return by the deadline HMRC can charge an instant penalty of £100, and the penalty increases the later the tax return is submitted.
How do I register?

If you meet any of the criteria you should inform HMRC by 5 October following the end of the tax year for which you need to complete a tax return. For example, if you require a tax return for the 2015/16 tax year which ends on 5 April 2016, the deadline by which you must register is 5 October 2016. You should register as soon as you know that you need to, if you register late then you may be subject to financial penalties.

You can register your filing requirement using the following link:
https://online.hmrc.gov.uk/registration

You will then be issued with a 10 digit unique tax reference (UTR) number which you can then use to complete your tax return online through the self-assessment section of the HMRC website.

If you prefer to submit a paper tax return to HMRC, you can download the form from the HMRC website:

What information do I need to help me complete a tax return?

You will need the details of your gross employment income received and tax withheld through PAYE during the tax year. Forms P45 and P60 which are issued by your employer will show these details. Form P45 is issued when you cease an employment part way through a tax year and form P60 is issued at the end of the tax year by your employer. If you receive any taxable benefits or expenses as an employee your employer will provide a form P11D.

Invoices or payment advice slips relating to any locum fees, cremation fees, form filling fees and the like should be retained and the details entered onto your tax return. Details of any tax deductible expenses such as professional fees and subscriptions should also be included (see ‘Tax relief on employment expenses’ for more detailed information about this).

You will also require information from your payslips about the amount of money paid towards student loans in the past tax year. If you have underpaid based on your earnings, HMRC will collect any extra money owed for your student loan.

3. Paying tax and receiving a rebate

If you are an employee income tax is taken automatically from your salary on a monthly basis through PAYE. If you have submitted a tax return and have additional tax to pay, HMRC will usually issue you with a tax payment slip.

The tax payment is usually due on 31 January following the end of the tax year to which the payment relates. Even if you do not receive a remittance slip from HMRC, arrangements must be made to pay the tax by the due dates to avoid interest and penalties.

In certain circumstances you may be required to pay future tax liabilities on account (payments on account). This may be applicable to you if, for example, a proportion of your income is paid gross and has not suffered any tax at source. If you are unsure if this is applicable to you please consult a tax advisor.

If the actual liability is less than what has already been paid on account a repayment will be due. If you have paid too much tax at source you may also be due a repayment. This will be calculated when you complete your tax return and if a repayment is due you can enter your bank details onto your tax return and HMRC will repay the tax directly to you. Alternatively they will issue you with a cheque.

If you are not required to complete a tax return HMRC may still review your tax position following the end of the tax year. In this case HMRC will write to you. https://www.gov.uk/tax-overpayments-and-underpayments

How do I pay my tax liability?

If you complete a tax return you should use your unique 10 digit taxpayer reference number to make a tax payment to HMRC. When making a payment it is recommend that the payslip provided by HMRC is used to ensure your payment is allocated to the correct account. If you have not received a payslip from HMRC you can create one online at: http://www.hmrc.gov.uk/gds/payinghmrc/payslip-sa1.htm
There are a number of ways in which you can pay the tax including:
- Sending a cheque in the post
- By debit or credit card
- Online banking
- At the post office, bank or building society

Click here for more information on making self-assessment tax payments to HMRC:

If your self-assessment tax liability is less than £3,000 and you submit your tax return online by 30 December after the end of the tax year to which it relates, (31 October for paper tax returns) you can choose to spread the payment and have the tax collected through an adjustment to your PAYE code, rather than making the payment in a lump sum.

If you fail to make a self-assessment tax payment by the deadline, HMRC will add interest which accrues daily and is currently charged at 3% per annum as at April 2016. In addition to interest, there are also late payment penalties which can be applied by HMRC.

Click here for more information on late payment of tax:
https://www.gov.uk/if-you-dont-pay-your-tax-bill

4. Tax relief on employment expenses

This section covers tax deductible expenses, this is a complex area and therefore we recommend that specific tax advice is taken.

‘Tax deductible’ means that the cost of an item or expense can be subtracted from your adjusted gross income, in order to reduce the amount of income that is subject to tax. This section does not cover whether or not you are able to claim back any expenses from your employer in full — only whether the amount can be deducted from your taxable income.

A tax deductible expense must be an expense which you have incurred “wholly, exclusively and necessarily” in the performance of your duties of employment. It is an expense that you had to pay whilst doing your job, and which related only to doing your job. For junior doctors, tax deductible expenses broadly fall into the following categories:

BMA, MDU, GMC and other professional memberships and annual subscriptions
- To make a claim for any professional memberships, you must be involved in the practice of the profession and the membership must be a condition for practicing that profession.
- To make a claim for any subscriptions, these must be with a HMRC approved body and must be subscribed for the advancement or spreading of knowledge and the maintaining or improvement of standards of conduct amongst members of the profession. A list of eligible professional bodies can be found on the HMRC website: https://www.gov.uk/government/publications/professional-bodies-approved-for-tax-relief-list-3/approved-professional-organisations-and-learned-societies
- You can email BMA, MDU & GMC to ask for a statement of fees paid to help you make a claim. This can sometimes take time, so ensure it is done well within the deadlines.
- For GMC subscriptions, you can download this from their website. Any subscriptions that need to be paid may depend on your individual role.

Travel in the performance of duties
- To make a claim the travel must have been necessarily incurred in the performance of the duties and must not be ordinary commuting, for example a patient home visit in your own vehicle.

Travel to a temporary workplace
- To make a claim the temporary workplace must not be the base from which duties are usually performed and work carried out there must not last or be likely to last more than 24 months. (see also paragraphs under ‘Travel to work’)
**Education and training costs**

- HMRC guidance on this can seem very clear and conclusive - the costs of travel to courses, course fees and other associated costs ARE tax deductible if attendance at the event is an intrinsic part of the employment and one of the duties of employment. See HMRC guidance published in their formal Manuals at EIM32546: [http://www.hmrc.gov.uk/manuals/eimanual/eim32546.htm](http://www.hmrc.gov.uk/manuals/eimanual/eim32546.htm)

  "A trainee doctor employed as a registrar on a training contract is required, as a stated contractual duty of the employment, to attend various external training courses. As part of the duties of the employment there is a mandatory requirement to maintain a national training number by attending a series of training courses and events. Failure to complete the course and obtain the qualification will mean that he cannot proceed to the next stage of his chosen profession.

  Attendance at the training events is an intrinsic part of the employment and one of the duties of the employment. The costs of travel to the events, course fees and other associated costs met by the employee are deductible."

  See Revenue & Customs Commissioners (CRC) v Dr Piu Banerjee (2010).

  A word of caution however, as in another very similar tax case, Dr Decadt v CRC (2008) expenses such as the cost of entering examinations, travel to them and an overnight stay were not allowed.

  A distinction is drawn between “time spent undergoing clearly relevant and perhaps on one view, necessary training, from time spent actually carrying out the duties of the employment. The costs and expenses involved in undergoing training to qualify the taxpayer to carry out those duties are not themselves deductible.”

  The question of whether or not education, exam fees and other training costs paid for personally by a junior doctor are tax deductible is a complex one and this is an area that HMRC do review regularly.

  The answer is dependent on the precise facts and circumstances of each case.

  Specific formal advice relating to your unique circumstances is always recommended. Please contact the BMA or [email an advisor](mailto:email an advisor) for further support.

**How do I claim tax relief on expenses?**

You can claim tax relief for your expenses in the following ways:


- Complete a self-assessment tax return, if you are already in self-assessment or the expenses amount to more than £2,500 (see ‘Tax returns’ for more information)

- For exam fees (subject to the above commentary), you could also write a letter to HMRC stating that:
  - you are employed under a training contract (Provide a letter from your deanery/LETB or your employment contract to support this)
  - you took mandatory examination/s (specify which) to meet the requirements of your training programme and believe that the cost of the examination/s is now tax deductible
  - reference HMRC guidance EIM32546 which states that: ‘Failure to...obtain the qualification will mean that he cannot proceed to the next stage of his chosen profession’.

  The BMA has developed a template [letter](mailto:letter) which can be used as a basis to draft your letter to HMRC if necessary.
Travel to work

There are different rules regarding travel to work for junior doctors depending on the type of training contract they are on:

Rotational Contracts

Junior doctors on rotational contracts operated by separate NHS trusts for periods of, for example, 12 months, are deemed by HMRC to be at a permanent workplace as each hospital is the only hospital at which you will work for the duration of that employment contract. In this case the expense of travel from home to each permanent workplace is not tax deductible. See HMRC guidance EIM61017 for more detail:
https://www.gov.uk/hmrc-internal-manuals/employment-income-manual/eim61017

Single Contract

Where your training programme takes place under a single central contract of employment, e.g. in a lead employer arrangement, each hospital will be regarded as a temporary workplace because you will not be working at that hospital for a period that lasts or is likely to last more than 24 months. In this case, the expense of travel from home to each temporary workplace is tax deductible. When reviewing a claim for travelling expenses HMRC will check whether the employment contract requires you to work at one hospital site or several sites.

A lead employer is not deemed to be an 'employment intermediary' within the definition applied to such bodies in the new guidance issued by HMRC in April 2016. Therefore, such assignments continue to permit the expense of travel from home to each temporary workplace as tax deductible. See HMRC guidance EIM80000 for more detail:

Mileage rates

'Mileage allowances' are paid when an employee uses their own vehicle for work purposes. When your employer pays a mileage allowance they are reimbursing at a fixed amount per mile for using your own vehicle.

The mileage allowance you receive is exempt from tax, up to certain limits set by HMRC. If the mileage allowance paid exceeds the limits then the employee makes a profit and must report this to HMRC. The profit is taxed as employment income. If the mileage allowance is below the tax exempt limits the employee makes a loss which can be claimed as an employment expense and should therefore be reported to HMRC.

The tax exempt limits depend on the employee’s business mileage in a tax year. Business mileage does not generally include travelling from home to work, see however commentary on temporary workplaces. If an employer does reimburse an employee’s travel costs from home to work, this will generally be a fully taxable benefit.

If you are unsure how to calculate this, you can speak to a Tax Advisor for help.


NHS Rates

The mileage allowance you can receive is determined by mileage rates set by the NHS. More detail about the rates you can claim can be found on the BMA website:
https://bma.org.uk/practical-support-at-work/pay-fees-allowances/travel-expenses
Tax-deductible items

It is not possible to provide an exhaustive list of allowable expenditure as the requirement of one post will not always be the same as another. In summary, if the expenditure either satisfies the ‘wholly, exclusively and necessary’ rule or is listed in HMRC’s list of allowable annual subscriptions to approved associations, that would be a good indication that an expense is an allowable deduction for tax purposes.

Possible examples include:

– Scrubs
– Theatre shoes
– Stethoscopes
– Laundry charges if you have to launder your own uniform

Or any tools and specialist equipment that is specifically required, necessary and used in the performance of your particular work.
5. Relocation expenses

Junior doctors are entitled to claim expenses when moving to satisfy training needs, and this includes the reimbursement of removal expenses, legal costs and other services. Where relocation expenses are reimbursed by your employer, they are exempt from income tax up to a maximum of £8,000. The exemption applies to removal benefits and to the payment or reimbursement of removal expenses.

These expenses will qualify for tax relief if they are “reasonably provided” in connection with a change in your residence – i.e. because you are newly employed, or because there has been a change in your duties and/or the location of your employment.

To qualify the expenses must be incurred or the benefits must be provided before the end of the tax year AFTER the one in which your employment duties changed. If you cannot use all of your exemption before the end of your time limit, consider contacting your Tax Office about an extension. They may be able to extend the time limit if, for example, you have to delay moving to allow a child to complete school exams, or because you cannot sell your old home within the time limit.

Qualifying removal expenses will include:

- Legal fees in connection with the acquisition of a new residence (including stamp duty land tax)
- Providing replacement domestic goods
- Legal fees in connection with the disposal of a former residence
- Costs of transporting belongings including temporary storage costs
- Travel and subsistence for the employee and family to visit the new area. This could include travel costs paid by the NHS in lieu of relocation where there is a valid reason why the relocation to the new place of work cannot take place immediately.

Receipts for all expenses should be kept in case HMRC requires evidence. For more information about tax relief on relocation expenses, click here: [https://www.gov.uk/expenses-and-benefits-relocation/overview](https://www.gov.uk/expenses-and-benefits-relocation/overview)
6. Tax relief on your pension

When you make payments into a pension scheme tax relief is available. There are two main ways in which this can be achieved:

The first way is by contributing to an NHS pension directly from your salary. In this case the pension payment is deducted from your gross salary before income tax is deducted, therefore you save tax at your marginal rate on the amount contributed to your pension.

The second option is to make contributions to a private pension plan (although it should be noted that most doctors will choose to have an NHS pension). If you contribute in this way you will receive an additional 25% of the value of your contribution from HMRC subject to certain limits. For example, if you pay £80 into a private pension HMRC will pay in an additional £20 making the total contribution £100. If you are a higher rate/additional rate tax payer you are currently due additional higher/additional rate of tax relief on your pension contributions.

The maximum gross amount an individual can contribute to their pension scheme and on which they can receive tax relief is 100% of 'net relevant earnings' but this is capped at the annual allowance. This takes into account contributions made by an employer. Where the available annual allowance is exceeded, an 'annual allowance tax charge' will arise. If gross pension savings exceed the annual allowance in a tax year, an individual will be allowed to bring forward any unused annual allowances from the previous three tax years as long as they have been a member of a registered pension scheme for the year in question.

The annual allowance was £50,000 in 2012/13 and 2013/14, and £40,000 in 2014/15 and 2015/16, however special transitional rules were in place for 2015/16 whereby an individual could have potentially had an enhanced annual allowance of up to £80,000. From 6 April 2016 the standard annual allowance remains £40,000, however individuals who have taxable income over £110,000 and taxable income plus pension inputs over £150,000 (adjusted income) will have their pension annual allowance for the tax year reduced. The annual allowance will be reduced by £1 for every £2 of adjusted income over £150,000. Once adjusted income reaches £210,000, the annual allowance will be reduced to a minimum level of £10,000.

UK tax relieved contributions are subject to an overall limit known as the lifetime allowance. If your total UK tax relieved contributions exceed the lifetime allowance, you may be subject to a UK tax charge when you receive benefits from your pension plan. The lifetime allowance reduced to £1mn with effect from 6 April 2016.

This is a complicated area and professional advice is strongly recommended.
7. Tax relief for locum doctors

Using a limited company

Many locum doctors work via agencies and the NHS, which handle their pay and taxes in a similar way to a direct employer, in that they are taxed at source under normal PAYE rules. This is simple and straightforward, without any need for the help of an accountant. However in some circumstances, locum doctors may choose to set up and operate through a ‘limited company’ in order to take advantage of the forms of tax relief that this arrangement offers.

What is a limited company?

A limited company is separate from you personally and is responsible for any legal and financial decisions undertaken – its finances are also separate from your own and as such the money you make belongs to the company, and you will get paid through the company accordingly.

What are their advantages?

If you set up your own limited company it will pay Corporation Tax of 20% and you can pay yourself in a combination of salary (tax deductible expense) and dividends (out of post-tax profits). Salary income over the personal allowance is taxed at 20% for basic rate taxpayers, increasing to 40% and 45% for higher rate and additional rate taxpayers respectively. For dividends received after 6 April 2016 there is a new dividend allowance of £5,000 (0% tax rate). Dividends over the £5,000 dividend allowance are taxed at a rate of 7.5% for basic rate tax payers, rising to 32.5% and 38.1% for higher rate and additional rate taxpayers respectively. As part of these changes the dividend tax credit will cease to apply. Whether or not you will benefit from a reduction in your tax liability on your dividend income will depend on the amount of income received and the tax band into which such income falls.

You can also claim business expenses through your company (this can include things like stethoscopes, scrubs, laptops etc.), which will be deducted from your company’s profit and will therefore decrease the amount on which you will be taxed at the end of the year.

What are their disadvantages?

There are greater accounting and tax return requirements when operating as a limited company and you will need to maintain detailed records of your hours, rates, dates of contracts and expenditure. You are strongly advised to seek the advice of an accountant to help you set up your limited company, so if locum work is only a part of your regular income, it may be more financially worthwhile to remain working for agencies with PAYE.

One of the major disadvantages of running a limited company is that you cannot contribute to an NHS pension based on any income you receive this way, so in some cases it is advisable to make alternative contributions to a private scheme. You can expense these contributions generally as long as they are no more than £40,000 per year from both employer and employee.

Full HMRC guidance on setting up a limited company is here: https://www.gov.uk/limited-company-formation

See the BMA website for more detail on tax relief for business expenses: https://www.bma.org.uk/advice/employment/fees/fee-finder-locum-services
8. Paying tax outside the UK

Overseas work placements

The liability to pay UK income tax depends on an individual’s residence position in the UK. If an individual is resident in the UK, they are taxed on their worldwide income. However, if an individual is not resident in the UK, they are only liable to pay UK income tax on UK sourced income.

New legislation was brought in by HMRC applying from 6 April 2013, to determine an individual’s UK residence position for tax purposes. The ‘Statutory Resident Test’ determines the residence position based on the number of days spent in the UK and the number of ties to the UK (for example having an available home in the UK, working in the UK, family in the UK) during the year.

If you work overseas but do not break UK residence, you may be liable to pay tax on your earnings both in the UK and in the other country. Overseas savings and investment income is also liable to UK tax. You are therefore classed by HMRC as having foreign income which is one of the criteria for completing a UK tax return. If you do not usually complete a tax return you should complete form P85 before you leave the UK.

Residence is a complex area of UK taxation and you are encouraged to seek professional advice if a residence position needs to be considered.

Click here for HMRC’s guidance on the Statutory Residence Test: [https://www.gov.uk/government/publications/rdr3-statutory-residence-test-srt](https://www.gov.uk/government/publications/rdr3-statutory-residence-test-srt)

Click here for more information on leaving the UK: [https://www.gov.uk/tax-right-retire-abroad-return-to-uk](https://www.gov.uk/tax-right-retire-abroad-return-to-uk)

Click here for a link to form P85: [https://www.gov.uk/government/publications/income-tax-leaving-the-uk-getting-your-tax-right-p85](https://www.gov.uk/government/publications/income-tax-leaving-the-uk-getting-your-tax-right-p85)

Non-domiciled status

‘Domicile’ is a separate concept from tax residence and is a complex area. There is no strict definition of domicile, however it is generally regarded as the country where an individual intends to remain for the rest of their life. An individual has a domicile of origin which is the domicile of their father at the time of their birth. It is difficult for an individual to change their domicile.

Click here for more information on domicile: [https://www.gov.uk/tax-foreign-income/non-domiciled-residents](https://www.gov.uk/tax-foreign-income/non-domiciled-residents)

Am I liable to UK tax if I am not domiciled in the UK?

All income which is received in the UK is subject to UK tax regardless of your residence or domicile status. However, the way in which non-UK income is taxed as a non-domiciled individual does vary to the way in which a UK domiciled individual is taxed on non UK income.

Under draft legislation (ie legislation awaiting Royal Assent) it is intended that this distinction be removed from 6 April 2017 for non-domiciled individuals who have been resident in the UK for 15 or more of the previous 20 tax years.

Click here for more detailed information: [https://www.gov.uk/hmrc-internal-manuals/residence-domicile-and-remittance-basis/rdm30000](https://www.gov.uk/hmrc-internal-manuals/residence-domicile-and-remittance-basis/rdm30000)

This is a very complex area and you are strongly advised to speak to a Tax Advisor.
Double Tax relief

It is possible for income, capital gains or assets to be taxable in more than one tax jurisdiction. If a Double Tax Agreement exists between the relevant tax jurisdictions, this will be used to determine which country has the taxing rights on the relevant source and where foreign tax credits are available to be claimed. This is a very complex area and you are strongly advised to speak to a Tax Advisor.

Important contacts

The BMA exists to support its members in their professional lives. If you are a BMA member with an employment query contact our advisers, they are here to help you. Call 0300 123 1233 between 08.30 and 18.00 Monday to Friday, excluding UK Bank Holidays. You can also email an adviser.

If you require any assistance with your tax affairs, or wish to discuss any personal tax queries, you can also contact HMRC. They can provide advice on completing self-assessment tax returns, PAYE tax codes, claiming employment expenses and technical tax information: https://www.gov.uk/government/organisations/hm-revenue-customs/contact

You can find a qualified accountant through the Institute of Chartered Accountants: https://find.icaew.com

This guidance was developed with the valuable assistance of Ernst & Young. You can contact EY through the EY UK BMA tax services mailbox for a no obligation conversation and fee quote relating to any of the topics covered in this guidance.