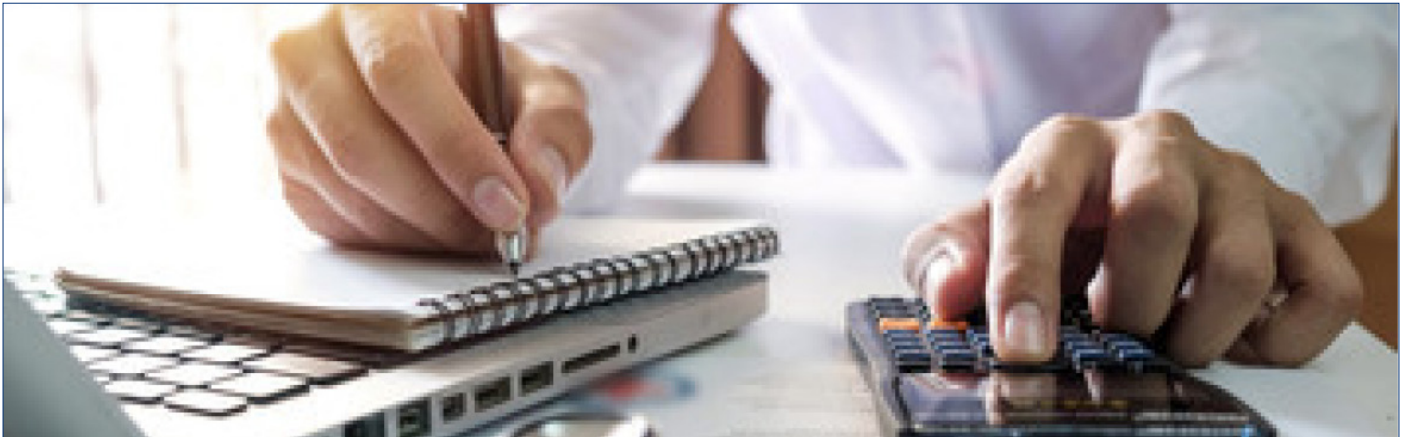


Partners' Personal Expenses – Tax Update for Doctors



HMRC have recently updated the wording in their internal manuals relating to partnership expenses, with a new emphasis on expenditure being included as an expense in the partnership accounts. Many doctors incur expenditure personally on behalf of the partnership, and it is common practise for these to be adjusted on the partnership tax computation and return rather than in the accounts themselves, so does this change by HMRC mean this can no longer happen?

The first thing we need to consider is why this change has come about? It is the result of a recent tax case, *P Vaines v HMRC*, where the defendant was trying to argue that he was entitled to adjust his personal return to show an expense he had incurred was in fact a partnership expense. While the specific facts of the case are not important, the courts found that for an expense to be a partnership expense then it had to be:

- Accepted by the partnership as an expense of the partnership,
- 'Wholly and exclusively' for the benefit of the trade and
- Incurred by the trade and deducted in arriving at the commercial profits.

However, as part of the judgement, the courts considered HMRC help-sheet HS231 Doctors Expenses, which does not insist on the inclusion of all expenditure in the partnership accounts but allows entries on the relevant sections of the partnership tax return as adjustments to the partnership accounts. Once these adjustments have been made, the expenditure will be treated as if it had been in the partnership accounts. The Judge said this was a concession for medical partnerships and did not apply to everyone.

So, for doctors in partnership this means nothing has changed, and expenses incurred 'wholly and exclusively' on behalf of the partnership can still be adjusted via the tax computation and return.

If you have any questions regarding personal expenses, please contact Sharon Ryan on 01132 211380 or email sharon.ryan@armstrongwatson.co.uk.

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