

Limited companies – your questions answered

Priya Kotecha gets to grips with some common queries regarding setting up your own company

A lot of my clients ask me about limited companies, usually when it is not applicable to their circumstances or I would have already asked them about it being, as I am, a proactive accountant (or a terribly nagging one as some of my clients will tell you!).

In this article I have put together some of the top questions I get asked, with my replies, because I think that this is often the easiest way to get to grips with a concept that is so decidedly different from being self employed that it can take a while to get one's head around. I hope you will find it useful as they are all actual questions posed by actual dentists.

Q. My friend formed a limited company and he now pays his son's school fees out of his company. Why won't you let me do that when I am self-employed? Should I form a limited company so I can also get my company to pay the (exorbitant) fees?

A. You cannot get tax relief on school fees either as a company or as a sole trader, because that cannot be, by any stretch of

the imagination, a business expense. If your friend is doing this, he is either breaking the law, or (more likely) he is getting his company to pay his son's school fees as a way of drawing down his director's loan.

Allow me to expand:

If you decide to incorporate your squat practice which has goodwill valued at £400,000 (for which you paid nothing as you set up the practice yourself), you will be selling your goodwill to this newly formed company. Being newly formed, the company has no money, so you sell the goodwill to it and effectively loan the company £400,000 to buy it from you. This is the director's loan. As and when the company makes a profit, after it has paid corporation tax, it may repay some or all of this loan to you. When you receive this money from the company, you do not pay tax on it, as the company is just repaying part of the loan. If you decide that, rather than the company paying you back £20,000 and you then paying the school fees from your own account, you will instead get the company to pay the £20k direct to the school, this will reduce your outstanding loan balance to £380,000. But for tax purposes it is no different to you taking £20k from the company as a loan repayment and then paying the school fees personally.

Q. I'll find it easier to raise finance if I set up a company, won't I?

A. Not necessarily. Often, banks will ask for a personal guarantee on a loan for a small company anyway, or may even ask for your personal assets to be used as security.

Q. If I form a limited company, will it be easier for me to sell my practice?

A. Actually, no. It could be harder if you are hoping to sell your company (selling your shares) as buyers may be wary of buying a company because with that comes the past

history of the company. If the company has unpaid debts or loans, unless these are specifically tackled in your sale agreement, the new buyer will be liable. Also, if patients or staff or anyone for that matter take legal action against the company, it is the new buyer who is liable for that (again, unless specifically tackled in the sale agreement). Even if this is set out in your agreement most buyers will still, understandably, be nervous and would undoubtedly prefer to buy the assets from the company (i.e. goodwill) as opposed to shares in the company which holds the goodwill. This latter course of action, whilst preferable for the buyer, can be tax inefficient for you, but it depends on the circumstances.

Q. Will I definitely pay less tax as a company?

A. No, but in many situations you will. This is due to a variety of reasons:

- The rate of corporation tax
- The fact that you only pay tax personally on what you take from the company in form of salaries and dividends
- There is no national insurance on dividends (yet!)
- Your income can be subsidised by drawing down unused directors loan accounts.

Summary

Every situation is different, so it is all about sitting down and examining your personal circumstances to see whether you will be better off or not by forming a limited company. You also need to check the effect it may have on any income protection policies, as well as the fact that you may well show a reduced 'income' for mortgage application purposes.

Good luck, whichever structure you opt for – and there are more!

Care to comment? @AesDenToday



Priya Kotecha (ACA, DipPFS) is a chartered accountant with Mac Kotecha & Company, where she and the senior partner deal exclusively with

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