Tax implications of buying a dental practice

Priya Kotecha explains the financial aspects and rules and regulations of purchasing a practice

So you've been looking for a practice and have finally found The One. You've agreed on a price (after a little haggling!) got a bank loan lined up (with a bit of luck!) and are all set to take the plunge. Your cashflow is something that you will really need to monitor and plan very carefully (and I will cover in another article) but for now, let's look at the various tax issues that could affect you, but that you could perhaps use to your advantage…

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1. When you buy a practice, there is no tax relief on the price you pay for goodwill or the costs associated with that. You do however get relief for this when you actually sell your goodwill (against the sale price for capital gains tax purposes). The element of the purchase price that represents "equipment" does attract tax relief via capital allowances. So, if there is any scope for manoeuvre around the professional valuation, a higher value attributed to the equipment attracts more tax relief for you. Any equipment that you buy is eligible for the Annual Investment Allowance (what we accountants affectionately refer to as AIA). From the 6th of April 2012, this drops from a whopping £100,000 to a meagre £25,000. Anything you spend over and above this receives a capital allowance of only 18% on a writing down balance, so you will still get relief, but spread over a number of years rather than all in one go. If you are also going to be spending yourself on equipment as well as the equipment purchased from the practice, careful timing and planning are essential to maximise the AIA.

2. You might not even consider SDLT (stamp duty land tax) when you buy a practice, but remember it does apply to commercial properties priced over £150,000.

3. If the practice you are buying employs any staff, you as the new employer have to step into the shoes of the old employer. This is called the TUPE regulation and is there to protect employees from having their pay slashed or being sacked every time the business changes hands. When you pay employees, if you pay them more than £589 per month, you suffer an additional tax known as employers national insurance. This isn't cheap and currently stands at 13.8%. Remember also, that you will be collecting your employees tax and national insurance on behalf of HMRC and will have to pay this to them every month. So you pay the employees net wages, pay HMRC their tax and national insurance and pay HMRC your contribution for employers national insurance. Altogether, this adds up to the employee's gross pay plus employers national insurance. This is one tax that you do actually get tax relief on!

4. Depending on your circumstances, it may well be that your income takes a hit when you buy a new practice. If your profit in the tax year is going to be less than the previous year, your accountant should submit a claim to reduce your tax payments on account of that tax year. This will greatly assist with cash-flow and saves you having to fork out for a hefty tax liability that you don't really owe and then having to wait 6-12 months for a refund.

5. Loan repayments will play a very important part in your cash flow as chances are you will have taken out a mortgage to help finance the

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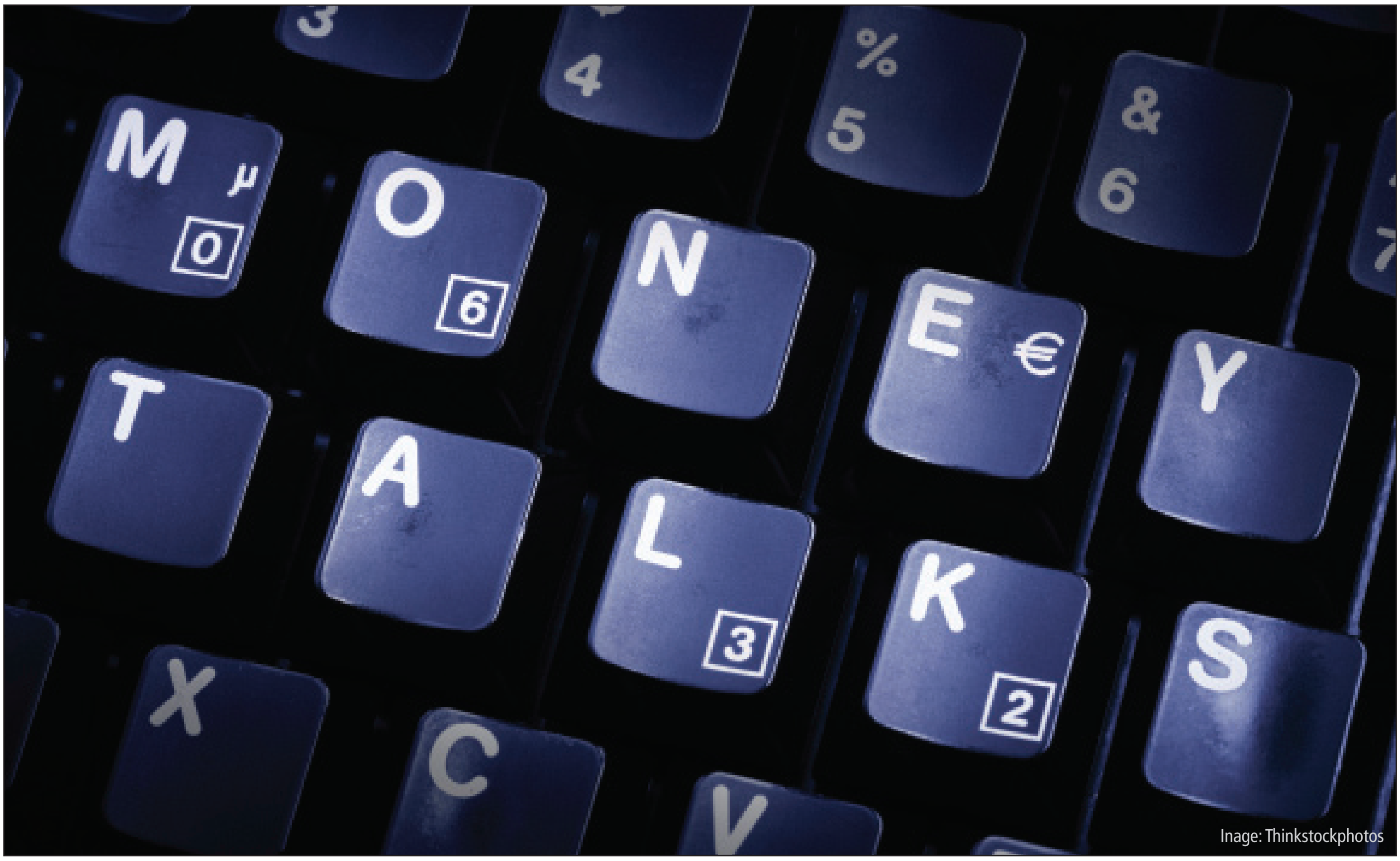

practice. Remember that you only get relief on the interest portion of each loan repayment and not the capital. So the amount of capital you repay each month hits your cash flow but doesn't help reduce your tax liability. Again, this doesn't work out too badly in the initial years, as depending on the type of mortgage you get, your initial loan repayments are likely to consist of more interest than capital. As you get towards the end of your loans life, each monthly repayment is likely to be more capital than interest.

6. To help control your tax liabilities – it is essential that you know exactly what you get tax relief on. Sit down with your accountant and go through this in detail as soon as you have a completion date. There are too many expenses to go through here, but as a rough rule, anything that is wholly and exclusively for the purposes of your trade get tax relief. The only obvious exceptions are any capital repayments for loans or hire purchase agreements or any improvements to the surgery premises, which brings me on to…

7. When you have any building works done in your practice, it is absolutely essential to first understand exactly what gets tax relief and what doesn't and if it does – whether it is capital or revenue in nature. What does all this jargon mean though?

a. Capital expenditure (installation of fixtures, fittings and equipment) attracts tax relief via capital allowances so you need to watch your timing here as you only get one AIA per year and if you go over, you will not get as much tax relief as you could.

b. Revenue expenditure attracts tax relief via a reduction of your profit, similar to how lab bills, payments to your staff, your electricity bill etc reduce your taxable profit. When you have building works in general, there may be some elements that attract relief this way, such as perhaps when your builder comes in, maybe he also refreshes the paint in the waiting room. That refreshing should qualify for tax relief as a revenue item.

c Improvements are things you do to the actual building – such as putting in an extension, walls, floors or ceilings and do not get tax relief at all. You should however get relief when you actually sell the freehold (which will be under the scope of capital gains tax) so keep details! There are a lot of grey areas where things like putting up walls, ceilings and floors are concerned because there are some circumstances under which they qualify for tax relief as capital expenditure. Again, it is best to talk through exactly what you are having done and why with your accountant so you can identify exactly which bits will qualify and which bits won't. Planning is key (almost as key as finding a nice reliable punctual builder who charges what he says he will!)

You will have so much to think about when you buy a practice and the first year or so will be hard, so take advantage of your accountant as much as possible to help you with the financial and tax aspects. They should also be able to sit down with you and help you maximise your tax savings in a legitimate way as well as give you some practical tips and guidance to help you run the new practice as they will helped so many of their existing dental clients buy practices already.

Hopefully, once you get the initial year or so out of the way, you will really start to see the benefits of being your own boss and hopefully, of having a successful, profitable practice. Good luck! **adt**