

Making expense sharing agreements work for you

Priya Kotecha analyses a financial arrangement that can help many dental practices flourish

An expense sharing agreement (often lovingly referred to as an expense sharing partnership) offers a number of advantages, the largest of which is being able to share certain common expenses, often benefiting from economies of scale and reduced administration costs, whilst keeping your business and earnings separate. You are, in effect, sharing responsibilities and enjoying a level of cover should you be ill or away on holiday, all whilst each expense sharing party reflects their own efforts in their income.

It is not to be confused with a partnership, however, which is very different...

Specific circumstances

So how exactly does an expense sharing agreement work? Well, the simple answer is that it greatly depends on the way you and the other dentist(s) in the arrangement work and what you want to achieve. Before setting anything out legally, you need to discuss your specific circumstances with your specialist dental accountant who will be able to help you formulate how the agreement needs to work. You may also need a dental solicitor to formalise the agreement for you. This is generally

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recommended as expense sharing arrangements, like any relationship, can break down and having a well written agreement to fall back on can make all the difference between protecting your practice and having a big legal issue on your hands. The agreement may also cover details like how new patients are to be allocated, what happens in the event of incapacity, holidays, death and disputes etc.

Bert & Ernie

Let's have a look at a dental expense share agreement in its simplest form. Dr Bert and Dr Ernie (I sincerely hope I'm not the only one for whom those names bring back fond childhood memories!) want to share and own in common the actual dental practice freehold (though it is perfectly possible to have an expense sharing arrangement where the freehold is owned only by one of the parties) and equipment. They also want to share costs relating to the reception area and also two of their four surgeries which are occupied by a full-time associate and a full-time hygienist. The other two surgeries are occupied by Dr Bert and Dr Ernie respectively. They will also share the income generated by the hygienist and the associate equally.

Now, both of them work five days a week, but Dr Bert is a very high grossing dentist also with an implant specialism, whereas Dr Ernie provides general dental care. To put all of their income therefore into a common pot and share it equally between them would of course not be fair. Nor would be sharing their lab costs equally since Dr Bert's are far higher. Therefore, they will keep their own income and dental supplies/lab

costs separate and will do the same for their own dental nurse and any other expenses directly linked to their own dental business. This means that the only income shared is that relating to the associate and hygienist, for whom the expenses are also shared equally.

It is important to note that this does effectively represent two businesses operating from the same address, so both Dr Bert and Dr Ernie will have personal liability for their own commercial risks and will also be responsible for their own taxation as self employed dental practitioners. They will not, however, have responsibility for their expense-sharing buddies.

Exit routes

A final thought I will leave you with is the possible exit routes. The expense share agreement should detail how this will be handled in the event that Dr Bert or Dr Ernie die or wish to leave the arrangement. Often there will be a provision in place for the other dentist to buy the departing dentist's share. How this share is to be valued should be agreed on at the outset to avoid disputes later. There may also be an agreed process to follow in the event that one or both parties wish to sell their practices (because, with an expense sharing arrangement, there are essentially two separate businesses operating from the same address).

For many dentists an expense sharing arrangement can provide a perfect setting in which to flourish and grow their respective businesses. Dr Bert and Dr Ernie certainly agree!

Good Luck!

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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