Selling your practice

What factors must you consider when selling your practice? **PRIYA KOTECHA** explains all the details

FACTFILE

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It was Mark Twain who said 'Work is a necessary evil to be avoided'. If you agree and are selling your practice, read on! (Though of course, you may still carry on working unless you are lucky enough to be retiring! Remember though, that the trouble with retiring is you will never get the day off!)

FOR SOLE TRADERS

If you are a sole trader, what you are selling will largely consist of three elements: goodwill, fixtures and fittings and the property.

Goodwill is a capital asset so you will have to pay capital gains tax (CGT) on any gain you make. The rate of capital gains tax has now gone down from 28% to 20% BUT if you meet conditions required for entrepreneur's relief (ER) you will only pay 10%. The gain is broadly speaking what you sell it for less what you bought it for (or nil if it was a squat practice) less costs associated with selling the goodwill (like legal fees).

Fixtures and fittings are also a capital asset, but this is not liable to capital gains tax. Instead, income tax is charged if you make a gain. Alternatively, if you make a loss, this can be offset against other income you are paying income tax on. Unlike goodwill, you do not work out the gain or loss by comparing what you are selling for with what you bought it for. Instead, you look at what the tax written down value of your equipment is and compare this to the sale price. The tax written down value (or TWDV if you want to get down with us cool accountants and talk our lingo) is basically the amount left after capital allowances (like depreciation) over the years. You may be aware that over the last few years, we have had a generous relief known as annual investment allowance (affectionately referred to as AIA) which may mean that if you have bought a lot of equipment recently, you may have enjoyed full tax relief already so the TWDV may be low. This means that whatever you sell it for – chances are – you may make a large 'profit' and end up having to pay tax on it. If your income is fairly high, this is likely to be at 40% or even 45% so it is always worth discussing the split of goodwill and equipment with your accountant before agreed with the buyer!

Next the property. You may own the leasehold in which case this will be transferred. You would not normally expect to make a gain on this. If you own the freehold though – you have the option of selling the freehold within 3 years of ceasing to trade and selling the goodwill in which case, you should be entitled to ER as with goodwill. Alternatively, you could sell it leasehold as a way of beefing up your retirement income with a bit of rental income. If you do this though, note that when you finally sell the freehold, you will not be entitled to ER but will end up having to pay CGT at (probably) 20%!

FOR LIMITED COMPANIES

Let's ignore property for now and focus just on goodwill and equipment.

When you operate via a limited company, you do not own these assets in the first place – your company does. So, you have a choice of two options. The tax treatment between the two varies wildly so it is absolutely essential that you speak to your accountant before deciding. Sometimes, there may not be a choice (depends on the type of NHS contract you have, if you do have one, and how this is held) but your accountant will be able to chat you through and liaise with your dental solicitor to get the best outcome for you.

Option 1 - Your company sells the goodwill and fixtures and fittings to the buyer. You can then extract (I am sure any dentist loves that word!) the proceeds from the company.

In this case, your company makes a capital gain on the sale of the goodwill on which it must pay corporation tax, (which will soon be going down to 17%). The gain is broadly speaking what the company sells it for less what it bought it for less costs associated with selling the goodwill (like legal fees). If the goodwill met conditions for tax deductible amortisation when it was bought by the company (a bit like capital allowances already discussed) then the sale price is compared to the amortised cost and not the actual cost. The amortised cost is likely to be lower which means the gain on which the company will have to pay corporation tax may be higher as the company has already enjoyed tax relief on this amortisation. You can't have your cake and eat it unfortunately!

WHEN YOU OPERATE VIA A LIMITED COMPANY YOU DO NOT OWN THESE ASSETS IN THE FIRST PLACE - YOUR COMPANY DOES

When it comes to the fixtures and fittings, the company must compare what it is selling the equipment for with the TWDV. As before, if it makes a gain, then the company must pay tax, but if it makes a loss, the company can offset this against its other income before paying corporation tax.

So your company has sold these assets and has paid its tax on it. It is now a case of you being able to extract that money from the company in the most tax efficient way! Again – chat to your accountant to discuss the best way!

Option 2 - You sell your shares in the company to the buyer. The buyer acquires the company which contains within it the goodwill and equipment.

Here you effectively get rid of the whole company and everything in it so the vendor buys shares in your company which in turn owns the assets. Conditions permitting, this should qualify for ER which means tax on the gain for you at 10% hopefully.

SO WHAT ABOUT YOUR PROPERTY?

If the property is freehold, it will either be owned by your company or by you personally. If you went for option 2 and the property was held in the company, it means that you sold the shares in the company which contained within it the freehold (as well as the goodwill and equipment which have already been discussed) so that is already sold as part of the company. Sometimes however, people keep the freehold outside the company so it is actually held in their own name and is rented out to the company. If that is the case, you will have to sell this personally and most probably pay tax on this at 20%. Alternatively, you can always keep it and carry on renting it out to the practice and receiving rental income for it.

And that's it! If you are retiring, it is time to go home one last time and say 'Hi honey, I'm home....forever!' Hopefully your partner doesn't faint in despair! OP

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