IS INCORPORATION STILL WORTHWHILE?

Priya Kotecha investigates the pros and cons of incorporation

It is right up there with the other key questions in life…do alien lifeforms exist? Should we have another baby? Should I incorporate?

In the olden days, it was a much easier answer – the drawdown of directors loan and neat 10% rate of tax on any 'gain' in goodwill meant it was often highly attractive.

This was of course scrapped but incorporations still continued. In some cases, people still go for the sale of goodwill option often choosing to forgo incorporation relief which would otherwise mean you don't pay capital gains tax (CGT) now on the sale of goodwill to your company. Paying the CGT now means you still have the handy drawdown of directors' loan though the rate of tax is not attractive as before – 20% compared to 10% before.

Now of course we are getting to grips with the increases in corporation tax from 2023 alongside the increases in dividend tax. These mean that you are stung 'both ends' if you have incorporated.

Then why are some people still doing it?

The answer is of course – it depends on many factors. Your self-employed activities as an associate, practice owner, multi practice owner may simply produce far more profit than you need thus meaning that incorporating and just drawing out what you need to live on, produces ample tax savings.

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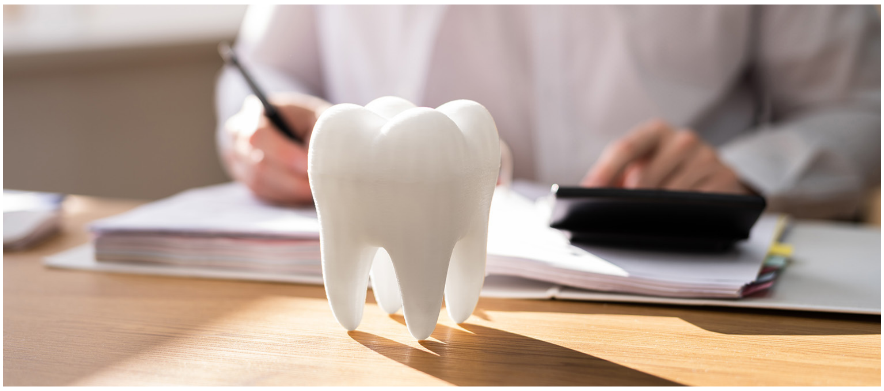

Sometimes it could be that you are electing to go for this structure at the outset when you buy a practice or perhaps opting for the groovily titled 'hybrid' structure whereby you operate as a sole trader or partnership for the NHS part of your practice and a limited company for the private part. Doing so can be incredibly efficient especially where there is a bank loan and it is important to get this structure correct from the beginning if you are not willing to fork out legal and bank fees to correct this later.

The question I probably hear most is, 'what can I do with the money I accumulate in my company.'

And there are several answers to this too! Using funds to buy a 0g/km car is a popular option as is saving towards another practice. Keeping it there to drawdown in retirement is close behind (it can get frustrating watching the money build up knowing you can't touch it though!). Another more interesting idea is to set up a structure whereby money can be fed from this company to another company which perhaps invests in buy to lets. This has other consequences though, both for CGT when you dispose and potentially for IHT (business property relief AKA BPR) so it is worth taking proper advice beforehand.

Again, before the standby option was always liquidating at some point in the future but this is now less of a sure thing for two reasons –

1. The reduction in BADR to £1m (have I thrown enough acronyms at you now? BADR is business asset disposal relief and replaced the old ER (entrepreneurs relief) but both of them are basically exactly the same thing it is just that the limit for this is now £1m in your lifetime). Anyway it means that if you have sold a few properties, businesses or even just one, you could very quickly be close to this £1m meaning liquidation would be at 20% and not 10%. Also the government is not very keen on this – money boxing as it calls it and many think that they will do something to stop this happening all together. If they don't do that though they could always increase the rate of CGT – something else we think Dishy Rishy (did I say that out loud?!) may be planning.

One thing that is certain is it absolutely makes sense to review whether a change in your structure is appropriate and review it often.

MORE INFORMATION

Mac Kotecha & Company offers accountancy, taxation and payroll services in addition to invaluable advice on practice management, buying/setting up a practice and other dental issues.
CONTACT on 020 8346 0391 or go to www.specialistdentalaccountants.co.uk.