

How to ensure you are tax efficient as an employed dentist



Priya Kotecha, Partner, Mac Kotecha & Company, begins her series looking at the life cycle of that most curious of species... dentists.

They start their journey much like any other human on this planet. But then they decide to devote themselves to those parts of us which, in ancient times, were indicative of status and strength. Teeth.

As dentists, they usually start as an employed VT. This is, arguably the most frightening time of their career – where they get down to the nitty gritty of what they have spent so much time learning. It is also perhaps the most exciting from all but a tax point of view. Or so you may think!

As employees, VTs do not have too much control over how they are taxed. Their practice will pay them monthly after deducting tax, national insurance and superannuation and the net amount they get is theirs to keep and spend as they see fit. However, there are a few things that they should bear in mind in order to ensure that they do not end up giving away money to the taxman when they do not need to.

1. Claim tax relief on your expenses

When you are employed, you are allowed to claim tax relief on what is wholly, exclusively and necessarily incurred in the course of your trade. That means you have to spend that money or you could not work and the money must have been used in its entirety for that purpose. A good example is subscriptions to the BDA, GDC or indemnity provider. There are others too.

But let's go back a step; what is tax relief? It means you get a deduction against your income for that particular expense. Let's say you had income of £30,000 and you had incurred expenses which are tax deductible

of £2,000, you would now only pay tax on £28,000 and not £30,000.

How to fix this? If you already complete a tax return, be sure to include these expenses. If you don't already have to complete a tax return (you likely won't if you don't have any other income) then you can complete a P87 either in paper or online and send to HMRC. It is a very simple form that asks for details of your tax-deductible expenses.

2. Make sure you are on the right tax code

If you are also in receipt of other income because you do some other self-employed work on the side, have another job and/or receive rental income, it is important to make sure that HMRC put you on the right tax code. A tax code dictates how much tax your employer must deduct from your pay for tax and is provided by HMRC. For example, if they think you do not have any other income, they will likely put you on a 125L tax code, which means you have access to the £12,500 personal tax-free allowance that is available to every single taxpayer in the country (except those who earn more than £100k when they start to lose it). But in that case, if you have rental income for example, it will mean that on your annual tax return, you will need to pay the tax on that rental income all in one go in January. An alternative is to ask HMRC to put you on a tax code which will deduct your tax for other income, from you every month from your employment income (as well as tax on your employment income), so you can also be paying off the tax on your rental income as you go along. This impacts more the timing of when you pay

tax as opposed to how much you pay, but it is important as you may not have saved it and be left with a deficit in January when it is time to pay.

How to fix this? Call HMRC if you do receive other income and ask them to change your tax code for you. They will then let your employer know.

3. Start getting into good habits

Start as you mean to go on. Set yourself up a new current account to be your work account. Have all your income paid into this account and pay any expenses that you think should be tax deductible from this account as well. Then transfer the money you need to live on into your personal current account and don't forget to build in a regular amount for savings too – you will thank me later.

How to fix this? Ask your bank for a new current account (not a business account – just another current account) as well as a savings account. You should then, in effect, have a work account, personal account and savings account which should set you in good stead for the next stage in your life cycle.

In my next article we will marvel at the emergence of a self-employed dentist from the cocoon of employment. As well as understanding the key difference, we will discuss how to ensure maximum tax efficiency; claiming tax relief by understanding which expenses are tax deductible, looking at your trading structure to ensure it serves you well, and saving money for tax, amongst other things. ♦

<https://doi.org/10.1038/s41404-023-2255-8>