Incorporation... isn’t that just a ‘trendy business’?

There are many myths surrounding the issue of incorporation. Michael Lansdell looks at some of the biggest ones and gives the business facts.

Ever since the General Dental Council amended the regulations to allow dentists to trade through limited companies from July 2006, (incorporation) the profession has been awash with conflicting advice and opposing opinions. In this article, I will try to dispel some of the specific misconceptions which have grown up around the issue.

It’s often stated that any potential tax savings after incorporation will be cancelled out by increased accountancy fees. True or false?

False. Accountancy costs will rise, as there is more work accounting for a limited company, but this is only a minor element in the overall equation. Before incorporating, the annual net benefits should be weighed against the additional costs. Reputable accountants will usually agree to fix their fees in advance to facilitate an informed decision.

Incorporation allows you to withdraw from the company an amount equal to the value of your practice’s goodwill with an effective tax rate of only 10 per cent (on the first £1 million); if other family members are also shareholders, or work in the practice, further tax benefits accrue, and tax-efficient borrowing becomes possible which many dentists have used to reduce or eliminate their domestic mortgages.

It will be a nightmare when I come to sell

False. The practice can either be sold by the limited company, which you can then wind up or not as you please, or you can sell your shares and the purchaser takes over the limited company.

If I create a tax mitigation scheme instead, I may have not have to pay any tax at all

99.99 per cent False. Incorporation is a permanent, legal business structure that reduces your tax liability for the rest of your career, and is entirely different from a tax mitigation scheme. Tax mitigation schemes, which must be declared on your tax return, can expose every aspect of your own and your practice’s finances to the scrutiny of the Inland Revenue, may only offer benefits for one or two years, and can fail, meaning any “saved” tax must then be paid, with interest.

The Inland Revenue is increasingly determined to stamp out such schemes, and is introducing more and more restrictions. As a final warning, some schemes rely on borrowing, and failure can involve the dentist in losses that can exceed the amount of the original investment.

My accounts will be available to the public

True. An abbreviated balance sheet of every limited company in the United Kingdom must be filed annually at Companies House. However, it does not include confidential or commercially sensitive information, for example company turnover, expenses, profitability, etc.

My record keeping will have to improve

False. Any additional statutory formalities will be handled by your accountants; practice record keeping is broadly unaffected.

My NHS pension will suffer

Not necessarily. Incorporation does not restrict the NHS superannuable pay, but this is a complex area and depends on the specific circumstances of your practice record keeping is left unaffected.

My PCT will not allow me to trade as a limited company

Many PCTs have no objection to transferring a contract from a sole trader to a limited company, and those which do express doubts can often be persuaded.

In the case of an outright refusal, you can still go ahead with incorporation while continuing to hold the contract in your own name on behalf of the limited company, immediately transferring to it the contract receipts.

Incorporation offers undoubted benefits for many dentists, but it is not on ‘off the peg’ solution to suit every practice.

If you’re thinking it might help you, seek out informed advice from an industry aware, professional firm which will take the time to appreciate your own aspirations and individual circumstances.

Money Matters

About the author

Michael was brought up in South Africa, receiving his honours degree there in 1984. He completed his training with international accounting firm Deloitte & Touche in 1987 and became a founding partner at Lansdell & Rose Chartered Accountants (SA) a year later.

Based in Kensington, London, Lansdell & Rose deal only on a long-term retained basis, exclusively with owner managed clients, generally dentists and doctors, and specialising in the incorporation of dental practices. As a close-knit team, they look for sustainable long-term solutions for their clients that maximise profits, minimise tax and build wealth.

If you would like to read more articles and need to know more, please e-mail your name and address to rae@lansdellrose.co.uk and we will post you additional articles.

For more information about Incorporation and the services available from Lansdell & Rose please call on 020 7576 8555