A sensible alternative

Michael Lansdell offers advice on avoiding involvement with tax schemes

The state of the nation’s finances continues to deteriorate, with national debt at staggering levels, revenue collection in the form of taxes much reduced, and Government expenditure soaring.

The Government seem to think that tax rises for the “wealthy” are politically popular, despite the fact time after time, it is clear that the very “wealthy” tend not to bear the brunt of these increases.

From 6 April 2010, top rate tax is increasing from 40 per cent to 60 per cent on taxable income between £100,000 and £112,950, and from 40 per cent to 50 per cent on all taxable income above £150,000.

From 6 April 2011, National Insurance is doubling on all profits above £55,850.

High rate tax relief for pension contributions is now already restricted to £20,000 per annum for those with incomes in excess of £150,000, with very few exceptions.

All that glitters…

With all of this gloom, entering into a “tax scheme” appears to have its advantages – principally that your tax rate can be reduced to zero, and it all seems so easy with a few signatures on some papers that are brought around to your home or your practice by that friendly-faced person who introduces or sells “tax strategies”.

With the Chancellor under intense financial pressure, and desperate to protect revenues of state, the Government is clear about their position on tax schemes: ‘We will identify activities which are not likely to have the legal effect desired by those thinking of using them. Where they are discovered…’

And pursuing these tax schemes the Government is certainly doing: harshly, mercilessly and with the full force of the law, to root out the avenues where taxpayers seek to avoid what they should pay. Recent tax schemes attacked by the Government have started with criminal investigations into the schemes, before moving to the other aspects of reclaiming tax, interest and penalties incorrectly claimed.

The front page story of the Mail on Sunday on 14 February 2010, which ran to several of the inside pages as well, detailed one of the schemes under investigation, including naming the people who had participated: many schemes operate as Limited Liability Partnerships (LLPs) and details of all participants are a matter of the public record at the Registrar of Companies and can be downloaded from the internet by anyone for just £5!

This article, of course, terrible publicity for the participants. What is more important is the Inland Revenue’s position as documented, which is that because the arrangement was principally aimed at tax avoidance, and was not trading on a proper commercial basis, then the participants in the scheme are not entitled to tax benefits, and to the extent that they have had tax benefits, these should be repaid to the Inland Revenue with penalties and interest.

The Mail on Sunday then went on to report that the firm that developed the scheme had problems of its own: a loss of £6.5m for the year to April 2009, and that two of its executives were charged last year in connection with a £219m tax scam for wealthy clients. Not the most tasteful company for a dentist to be keeping.

A more sensible solution

On the one hand, you have taxes skyrocketing and you feel that you must take action. On the other hand, you want to avoid dodgy tax schemes because deep down you know that they will cause you trouble and emotional and financial distress later: is there an alternative?

Yes. The solution is the incorporation of your dental practice, ie converting from a sole trader or partnership to a limited company, an arrangement which has been allowed by the GDC since 2006.

Some initial points are relevant about what incorporation is NOT:

- A tax scheme
- A tax loop hole
- Illegal
- Will not reduce your tax bill to 0 per cent

If we know what incorporation is NOT, then what IS it?

- It is a mechanism that may significantly reduce your tax bill, usually by between 50 and 50 per cent, depending on individual circumstances.
- Incorporation takes away your flexibility – on the contrary, the opposite is true.
- There will be loads of extra tax to pay when you sell or retire – this seems very unlikely, and to the extent that it may be true, it should be quantified and compared to the tax that you will save until retirement or sale to work out whether you will be better or worse off overall.
- Your practice gross, staff wages and profits will be a matter of the public record – if your gross annual turnover is less than £6.5 million, this does not apply and your private information about these things remains private.
- Limited companies are subject to inspections from PAYE auditors – in fact, all employers are subject to inspections from PAYE auditors, sole traders, partnerships and limited companies alike – your trading structure makes no difference.
- Your PCT won’t agree to it – many PCTs do and many don’t; if they don’t, there are ways of benefiting from the tax savings without disturbing your arrangements with the PCT.

Conclusion

It is impossible for any professional – accountant or otherwise – to say whether incorporation is a good or bad idea without fully understanding your own circumstances and working out the savings available in your particular circumstances. It may be right for you. The next step is to consult a dental incorporation specialist and see if you could benefit, and if you could, by how much.

About the Author

Michael Lansdell was brought up in South Africa, receiving his honours degree there in 1981. He completed his training with international accounting firm Ernst & Young in 1984, and went on to become 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.
our UDAs, we cash up, we check how many new patients came in and we look at our expenses.

Consider using key performance indicators to attach quantitative measures to qualitative processes. For example:

• How much diary time gets wasted?
• What are the outputs from each clinician in £ or UDAs?
• Which high importance, low fee items (check-ups, reviews, advice, denture eases etc) clog up the appointment book?
• How can this be managed without alienating patients?
• How many high risk/high needs patients are plugged into a “preventive programme” with the hygienist?
• How many low risk patients are on a “maintenance programme” keeping the patients as lifelong supporters and leaving you free to do dentistry?

Not only will you be meeting outcomes around CQC requirements to demonstrate personalised treatment, care and support, you will be freeing up your time to concentrate on treatments and the skilled technical dentistry you spent years in training for, you will ensure you have a tailored partnership with each and every patient which they will tell others about, and you will be picking up those patients who are falling through the net in your practice, and the resultant lost revenue.

8. Plan your strategy

Take a little time out to work out what you are doing well and what needs attention, then create an action plan for the next 12 months.

9. Allocate resource

Decide if you are going to sacrifice clinical time and revenue to work on CQC registration, or if you are going to engage your team and send your practice manager on the right training courses to do the work for you, or a bit of both.

10. Reorganise your finances

Assess where your practice expenditure goes. Broadly speaking, rent rates, utilities and compliance related costs are fixed and almost impossible to trim. Variable costs are related to activity. As a rule of thumb, materials, lab fees and infection control typically use up 12 per cent of turnover – more and you need to have more control, less and you may not be meeting standards.

Personnel costs and profits are the only areas which allow room for manoeuvre – this is why it is so important to get “buy in” from the team and arrange team training. The only other way is to engage expensive professionals to help you, and there may need to be cut backs in personnel costs to fund this. Beware those who tell you to cut back on staff... you may end up doing a lot more work than if you invest in their training!

11. Stay calm

Most problems have solutions, even if it takes some time to find them. Consider a positive approach and seek assistance if necessary.

About the author

An impassioned advocate of mixed practices, Seema is a successful dentist who owns 4 practices, including a 6-chair multi-disciplinary centre in the heart of Docklands, and a practice management consultancy, Dentabyte Ltd. Attributing her success to sound management and investment strategies, she recently visited the slums of Mumbai to give away £50,000 to underprivileged communities living in absolute poverty, and established a philanthropic charity, The Sharma Foundation.

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For practice management and CQC support email info@dentabyte.co.uk. Website: Dentabyte.co.uk.

Contact your local KaVo or Gendex supplier for more details!