A tax bonanza

This month, Geoff Long looks at the tax breaks open to dentists starting their own practice

With ever increasing tax rates squeezing dentists all the time, one way to spectacularly slash your income tax bill is to start your own practice. There are many more tax breaks open to practice owners compared associates. The reason being that ever since the Magna Carta written in 1215, the rich in this country have made the tax laws. So what exactly are the tax breaks open to dentists?

Goodwill issues
Any young dentist buying a three or four-chair practice at the moment is going to pay a king’s ransom for the goodwill. Wouldn’t it be nice if the taxman could be persuaded to help out a little? Well actually, he can. Goodwill is tax-deductible if you are a limited company. This means the Government subsidy of as much as 28 per cent is made via the tax system. Given the colossal prices being commanded by goodwill at the moment, this is not to be sneezed at.

Goodwill and equipment
The purchase price will need to be apportioned between goodwill and equipment. Equipment can attract a 100 per cent tax deduction at the moment so a useful tax planning point arises here.

Annual investment allowance
Often a new practice needs some refurbishment or re-equipment. The first £50,000 of expenditure in any one tax year is 100 per cent allowable. Yes, it is all written off your tax immediately. Any balance of expenditure is written off at 20 per cent or 40 per cent, depending on the year. So it makes sense to phase your practice refurbishment over a number of years.

Incorporation
Incorporation is a big step for any dentist, and one that is often difficult to reverse. Depending on your earnings level and family circumstances incorporation can give you some, albeit modest tax savings. Consideration will need to be given to your loss of flexibility when you incorporate, likely future tax hikes from the Government, and inherent difficulties in selling an incorporated practice.

Freehold purchase from a SIPP
If you are buying the freehold of your practice, a tax-efficient way of structuring the deal is via your SIPP pension fund. This means future growth in freehold value is free of capital gains tax and practice profits are slashed with SIPP rental changes. Ultimately, the SIPP can be used to fund your retirement, including a 25 per cent tax-free lump sum on retirement.

Tax refund – offset losses on a squat
By carefully timing refurbishment costs of a new squat practice, you can often engineer a start-up loss for your first accounting period. Generous tax rules allow you to set this loss against any other earnings for the current year, or indeed any of the previous three tax years. This can provide a valuable tax shelter for your associate earnings or generate a tax refund.

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