A cautionary tale

Ray Goodman discusses incorporating dental practices

In many cases, the practices were not using specialist dental lawyers or accountants. This was leading to incorporations, which may or may not have been properly conceived, being improperly executed. The necessary documentation was not being put in place to enable challenges from HMRC to be defended robustly and to avoid problems on sale or retirement further down the line.

Inevitably, we are now beginning to see the problems caused by such incorporations raise their head increasingly more frequently. The following case, that we have just completed after 11 months of difficult legal wrangling, is a case in point.

We were instructed to act for a buyer on the purchase of an NHS practice. So far as our client knew she was buying the goodwill, fixtures and fittings in the normal way. It was only when we received information back from our due diligence enquiries that we realised that the seller had incorporated some 12 months earlier.

The seller’s solicitor was not a dental lawyer and thus hadn’t realised the problems that flowed from the incorporation until we pointed them out.

The seller had two practices, one NHS and one private, and also a dental laboratory. All of these were transferred into the limited company on incorporation. The relevant PCT, having been persuaded to allow the principal to transfer his contract into the limited company on incorporation, was not inclined to allow any further transfer of the contract. As things stood the NHS practice both the seller and the buyer were subjected to a lengthy period of stress. The sellers were forced into a situation whereby they had to discharge all debt relating to their business, when they otherwise would not have wished to, and the legal and accountancy costs were increased significantly from what they would have been, had the practice not incorporated or been incorporated into a separate company from the other practice and laboratory.

As a direct result of the lack of foresight on incorporating the practice both the seller and the buyer were subjected to a lengthy period of stress. The sellers were forced into a situation whereby they had to discharge all debt relating to their business, when they otherwise would not have wished to, and the legal and accountancy costs were increased significantly from what they would have been, had the practice not incorporated or been incorporated into a separate company from the other practice and laboratory.

Incorporation can, in the right circumstances, be highly beneficial to a practice. However, there are consequences other than tax downsides.

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