Selling an incorporated business?  
How do you get the money out?

Jeff Williamson looks at your options...

With many dental practices now trading as a Limited Company, Jeff Williamson from special-ist dental accountants PFM Townends considers how such status affects your exit strategy from the business.

Asset sale
For the purposes of this article we are considering a Company that has sold its assets and the Second time around
For the vast majority of cases this will have been the second time that you have sold your business, the first being the incorporation of your self-em-ployment business.

Indeed the proximity of your business sale as a Company to the date of your original incorpora-tion is crucial, as it will has been any appreciation in the value of the Goodwill over that period.

Corporation tax
The Company will pay corpora-tion tax on the uplift in value of the Goodwill since incorpora-tion. Remember that because you were “connected” at the time of incorporation you have been un-able to claim any tax relief for the annual amortisation or writ-ing down of the Goodwill so your base cost is unaltered for tax pur-poses.

If, however, you set up a Lim-ited Company and purchased a Practice from an unconnected third party, you were able to claim tax relief on the annual amortisation of the Goodwill. So when the Company sells its Goodwill it will pay tax on the proceeds less the unamortised amount of the original Goodwill.

So subject to other income levels, dividends may avoid tax altogether but it will take longer to move the money out of the Company. If you retire at 55 you might consider deferring poten-tially taxable pensions until age 60 and drawing dividends for five years. This route can be special-ly useful where both spouses own shares.

Options

1 Director's loan account
Repaying your Director's loan ac-count will not incur any tax so do this first.

2 Dissolve the Company
Extra Statutory Concession C16 is no longer available so you will probably have to undertake a sol-vent liquidation of your Company. You will need a firm of Insolvency Practitioners and the likely cost is £1,500 to £2,500.

The reserves paid to you, as the shareholder, will be taxed as capital and so long as you don't delay, the distribution should qualify for Entrepeneur's Relief and therefore 10 per cent capi-tal gains tax. This is a second tax charge on the sale proceeds!

3 Dividend stream
The company could pay the re-serves out to the shareholders over time as dividends. If you are a basic rate tax payer then there is no tax to pay on dividend income, unless of course the dividend pushes you beyond the basic rate tax threshold where you would then pay 25 per cent income tax on the (net) dividend received.

It definitely pays to have clear tax advice alongside pensions and investment advice to ensure available reliefs and allowances are fully utilised. Early planning is strongly advised.

Shareholders are contemplat-ing how to deal with the sale proceeds setting in the Company bank account.

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Conclusion
Selling your business is just one component of your retirement plan. It definitely pays to have clear tax advice alongside pen-sions and investment advice to ensure available reliefs and al-lowances are fully utilised. Early planning is strongly advised.

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That was painless!

Brian Carter explains why finance really can benefit both the practice and the patient

As he brushed his teeth, John looked forward to the morning with a sense of foreboding. Not only did he have a visit to the dentist to look forward to but it was also a new dentist – what would he be like? John had called into the practice when he moved to the area 20 years ago and had gone there ever since. Dr Down had been an NHS dentist when John first went to the practice. John understood that Dr Down had recently provided some treatments on a private basis but what they were and why he offered them John was not quite sure – Dr Down had not been a great communicator.

There was one occasion when Dr Down had talked to him about a private treatment but it was in medical terms and he hadn't really understood the benefits. When Dr Down finished by saying: 'I don't expect you want that anyway', it made his decision easy – John didn't have it.

However, John had become comfortable with the practice – he had even got used to the receptionists who barely looked up from behind their 'barricade' before directing him to one of a row of seats that had not been changed in the 20 years he had been attending. John wondered what the receptionists’ names were.

He took one last look in the mirror. He was not blessed with the whitest teeth and there were a couple of crooked ones at the top but he looked after them and they were all his own!

When John arrived at the practice he briefly thought he had come to the wrong place. The floor tiles had been replaced with carpet. The wooden chairs had been swapped for armchairs. The newspapers and magazines were up to date and a tea and coffee machine had replaced the old water dispenser.

Most importantly, the 'barricade' had been replaced with a desk. The two receptionists, each in smart new uniforms, both looked up with a smile and a ‘good morning Mr Phillips’ when he entered. Their badges said ‘Jenny’ and ‘Sue’ – so they do have names!

John sat down as requested and noticed there was a new flat screen TV on the wall introducing various treatments that were available and how you could spread the cost if required – that seemed a good idea. He had only been looking at the screen for a couple of minutes when another smiling young woman came and introduced herself as the new

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Patient Co-ordinator, Patricia. He accompanied her to a private area where she explained that her job was to find out a little more about patients and explore concerns they had about their teeth before they saw the dentist. She also ensured that patients understood any suggested treatments after they’d seen the dentist.

Initially John became a little apprehensive – this was completely different to what he was used to. However, she was very pleasant and within a couple of minutes he was telling her of his concerns about the colour and unevenness of his teeth. He had never discussed such issues before and Dr Down had never asked him.

As soon as they had finished, Patricia took him into the treatment room and introduced him to the dentist – Peter Johnson. Another smile and a pleasant ‘good morning’ – he had entered a whole new world! Peter explained that he would initially carry out an examination and then consider any specific concerns he had discussed with Patricia. Having performed the examination and taken some X-rays, Peter considered the unevenness of John’s teeth as well as the discolouration.

He explained that tooth whitening and an invisible brace on the top jaw could resolve these issues. These treatments were not available on the NHS but could be carried out on a private basis and the total cost would be £2,000.

Whilst the treatment suggested sounded great and he would love to have it done, John had been a bit taken aback by the cost and said he would need to think about it. He thought to himself that he would not be able to pay that sort of sum at the current time.

As he read, John’s mind, Peter said he didn’t need to pay all in one go as there were many options for spreading the cost that Patricia would explain in detail. John recalled the message on the TV and thought it well worth considering.

Once Peter had finished, Patricia took John back to the side room and after ensuring he didn’t have any further questions about the treatment itself, she explained the finance facilities. A range of options was available. Interest-free finance was available over twelve months and the monthly repayments would be £166.67. Alternatively, he could spread the cost over a longer term. If he did this John would need to pay interest at a rate of 9.9 per cent APR but the monthly payments would be lower. Over the longest term of 60 months the payments would be as low as £42 per month – less than £10 a week!

Based on these figures John could easily finance the total cost of the treatment. In actual fact he was just paying off a loan for his furniture so a similar monthly repayment would virtually go unnoticed. Patricia also pointed out that if he paid a deposit the monthly repayments would be lower still.

Suddenly John’s concerns regarding affordability disappeared. He realised he could easily afford the treatment by spreading the cost and pictured looking into the mirror with straight white teeth. All those years of not being happy with his smile would be behind him – John would be able to smile without worrying about it!

John decided to pay a £200 deposit and finance the balance on an interest-free basis over 12 months with a monthly payment of £150 – an amount that was readily affordable given his salary. John completed a straightforward application form for the finance and Patricia booked him in for his next appointment to get the treatment underway. It was all very painless.

As he left the practice, John considered what a difference the whole experience had been – he would have to mention this to his friends!

NB: Although this story is based on actual case studies, all names are fictitious.

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About the author
Brian Carter has been a director at Dental Finance since 2001. The company provides consumer finance facilities, principally in the dental sector. It offers finance plans to increase treatment uptake, patient satisfaction and improve practice profitability. Previously, Brian worked at Barclays Bank and then First National Bank, in various management roles. He is an Associate of the Chartered Institute of Bankers (CIB). For further information, please contact Brian Carter of Dental Finance on 07901 951521 (direct line) or visit www.financingfirst-dental.co.uk