Dental Focus

DRIVING LIFELONG PROSPERITY

Summer 2017

SPOTLIGHT ON BUYING A PRACTICE

Welcome...

to the latest edition of Dental Focus, helping to keep you up to date with the latest accounting and tax developments in the dental sector.

INSIDE

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Are you interested in buying a dental practice?

Buying a dental practice can be a complex process and this article highlights some of the points you should consider.

WHAT ARE YOU BUYING?

Whilst at first glance this may seem obvious, there is a significant difference between buying the assets of a dental practice, i.e. the goodwill, fixtures & fittings, equipment etc. and buying shares in an existing limited company that owns the practice.

Generally speaking, an asset purchase can be relatively straightforward. However, if you are buying the shares in a limited company, more financial due diligence work is required. This is because the purchase of shares brings with it the entire history of the company. For example, if there is an error on a corporation tax return, a problem with the employment status of hygienists or a tax planning scheme which subsequently fails there might be repercussions which affect the value of the company. Checking for these potential problems is very important; the level of financial due diligence work can vary considerably and should be tailored to suit individual circumstances.

FINANCE AND AFFORDABILITY

Whatever you are buying, you should ensure that the level of debt repayments is serviceable; lenders will also 'stress test' loan repayments in case of interest rate increases. You will also need funds to meet personal cash requirements.

Whether buying assets or shares, basic checks about existing patients, fee income levels, costs etc. should be carried out. These can then be included in cash flow projections which can help you decide whether an acquisition is feasible. With goodwill values at very high levels, the amount of borrowing required to buy a practice can be significant and careful consideration of the financial position is essential.

It is also important to deal with finance providers who understand the dental sector, can look at the structure of the financing and get the best deal for you.

NHS OR PRIVATE?

NHS contracts add to the complexity and can play a significant factor in determining what you buy. For example, if an NHS contract has been properly incorporated into a limited company (another due diligence point to check), you will need to buy the shares in the company rather than the assets. Consideration should then be given to whether you buy the shares personally, or if you should set up another company to acquire the shares.

Conversely, if the practice operates as a sole trader, the 'partnership route' may be the best option to acquire the NHS contract, as in recent years it has become much more difficult to incorporate NHS contracts.

Private practices can be easier to acquire without the NHS contract issues, however, whether there is a share or asset purchase will depend on the circumstances. If the practice is owned by a limited company the vendor may prefer to sell the shares, which may be more tax efficient for them than their company selling the assets.

PROPERTY

There are many legal matters to consider in respect of the practice's premises, so legal advice is essential. A few points to consider are noted below.

Leasehold

If the practice premises are let by the current owner, you will need to consider matters such as who the landlord is and how long is left on the lease (is an extension/new lease needed?).

Freehold

Is the practice property for sale? Who owns it? If you wish to buy the property, how will this be achieved? Options include your SIPP (if circumstances permit), a separate property company, or simply owning it yourself. Again, cash flow projections will help assess affordability.

In addition, there may be capital allowances available in respect of the integral features (e.g. plumbing, lighting systems etc.) of the property which will need careful consideration and specialist advice.

SPECIALIST ADVICE

Appointing a solicitor who specialises in the dental sector is essential. They will need to deal with matters such as:

- preparation of the Sale and Purchase Agreement;
- preparation of an expense sharing or shareholders' agreement, if applicable;
- assisting with CQC and NHS contract matters;
- dealing with the property aspects of the transactions (as noted above);
- employment matters in respect of the practice's staff;
- associate contracts; and
- other commercial contracts.

CONCLUSION

There are many points to consider when buying a dental practice and this article has highlighted some of the financial matters; specialist advice is essential.

Please get in touch if you wish to discuss a potential practice purchase.

Making tax digital

Following on from the Making Tax Digital (MTD) consultations at the end of last year, the government released its response and confirmed that it planned to forge ahead.

This was despite widespread concerns from professional bodies, advisers and clients across the country on many aspects of the proposals and the timeframe to implement. However, the MTD legislation was subsequently dropped from Finance Bill 2017, presumably due to the general election. It is not clear whether this is a temporary respite; perhaps there will be a second finance bill after the election which will include the omitted legislation. This article sets out our understanding of the expected implementation timetable and associated rules.

It is expected that from April 2018 unincorporated businesses and landlords with turnover above £85,000 will be required to make quarterly digital communications to HMRC. This will affect all dental practices and potentially quite a lot of associates, given that the latest NASDAL statistics show average turnover for a dental associate was £82,857 in 2015/16.

Hazlewoods responded to the main consultation document and although a few of the concerns our tax team raised have been addressed, there are still many uncertainties and issues to iron out.

FILING DEADLINES

The filing deadline for the 'End of Year activity', which will essentially replace the current self-assessment tax return, has been confirmed as the earlier of 31 January or 10 months from the end of the period of account. We expressed our concern on the original proposed nine-month filing deadline, given that this would lead to a 31 December deadline for all those with a 31 March or fiscal year end. As agents we weren't particularly keen on telling our staff that their busiest period would be brought forward to Christmas, nor disturbing our clients' festive breaks with queries and requests.

Thankfully, HMRC took heed of this!

The filing deadline for the quarterly reports is to be one month after the quarter end, as previously announced. Bizarrely, the information submitted in the quarterly reports does not have to be accurate, nor does HMRC have the power to enquire into them, which leads us to wonder about their true benefit. Our view is that this is likely to be a precursor to real time information reporting and payments, as is currently the case for payroll.

SMALLER BUSINESSES

HMRC has listened, in part, to concerns over the additional burden for the smallest businesses. We raised a concern over the original proposals that spreadsheets would not be accepted by HMRC under the MTD rules, given that many of our clients keep their records in this format.

Following this, HMRC has confirmed that businesses will be able to continue to use spreadsheets for record keeping but that they must be capable of meeting the requirements for MTD. To achieve this, it is likely that spreadsheets will need to be used in conjunction with some basic software. We can assure you that we will have the necessary software to link from your spreadsheets to HMRC's digital accounts, however, this may be an ideal opportunity to review your record keeping, as new software advancements can simplify matters considerably. Please get in touch if you would like to discuss record keeping options.

We also suggested raising the turnover threshold for those needing to comply with MTD from £10,000 to at least the VAT registration threshold, which is £85,000 for 2017/18. Following many similar comments, the government had confirmed that it would give further consideration to the exemption threshold. However, perhaps unsurprisingly, it was subsequently announced that the threshold will remain, but with a one-year deferral for those below the VAT threshold. Dental associates are therefore expected to submit quarterly returns from April 2019, even if they do not exceed the £85,000 turnover threshold which applies from April 2018.

COMPANIES AND LARGE PARTNERSHIPS

Companies and larger partnerships (those with turnover of over £10million) will not have to comply with MTD until 2020.

TIMING AND PENALTIES

Reporting requirements are expected to commence for unincorporated businesses with accounting periods beginning on or after 6 April 2018. A pilot scheme will be run and we have signed up to be a party to it, so that we can assess the process and provide our clients with the peace of mind that we will be able to make the transition as pain free as possible.

To soften the blow slightly and help with the transition, no penalties will be levied for late submission of quarterly or end of year reports in the first 12 months.

NEXT STEPS

We remain concerned that the government is rushing into what is arguably the biggest change since the introduction of self-assessment. Depending on a second finance bill there could be less than 12 months to go before MTD is rolled out. However, we will be contacting our clients over the coming months to discuss the transition and the support we can offer.

TAX EFFICIENT REMUNERATION FOR THE OWNER MANAGED COMPANY

As the new tax year has just started, an annual review of your remuneration is always recommended to ensure your tax bill is minimised as far as possible. For the owner managed company, there are a number of different ways that you can be remunerated. For the 2017/18 tax year it is possible to receive as much as £22,500 from the company tax free and double that if your spouse is also involved with the business.

HOW TO REMUNERATE

The right remuneration will depend on the specific facts and circumstances of the company and the individual, including:

- whether the company has sufficient distributable reserves to pay a dividend;
- what other income the individual receives from sources other than the company; and
- if the company has a loan outstanding with the individual.

In general, the most tax efficient remuneration is achieved by a combination of a low salary, high interest and high dividends.

SALARY

The salary taken should be high enough so that your National Insurance (NI) history is protected. Typically, this is at the NI threshold where no NI is payable (£8,164 for 2017/18), but generally it should be no higher than the personal allowance, which is £11,500 for 2017/18. Any salary taken above this would be taxed at 20%, 40% or 45% depending on the amount received.

INTEREST

If the company owes the director money, interest can be charged on the loan. There are two savings allowances available which can result in no tax due on the interest received. The first is the 'starting savings rate' which allows up to £5,000 of interest received to be tax free. This is, however, reduced by £1 for every £1 of non-savings income above the personal allowance of £11,500 in 2017/18. Once non-savings income exceeds £16,500 the starting rate for savings is not available.

The second is the 'personal savings allowance' which exempts the first £1,000 of interest for basic rate tax payers or £500 for higher rate tax payers, but is not available for additional rate taxpayers.

DIVIDENDS

The first £5,000 of dividends (£2,000 from April 2018) paid to an individual is exempt from tax, regardless of any other income received. After this, tax is paid at 7.5%, 32.5% or 38.1% for basic rate, higher rate and additional rate taxpayers respectively.

Although the dividend tax rates have increased recently, they are still lower than income tax rates. Note, though, that the corporation tax position should also be considered (see below).

CORPORATION TAX

For corporation tax purposes, any salary or interest paid is a tax deductible cost for the company and tax relief would be obtained at 19% of the gross amount. Conversely, any dividends paid are not tax deductible and corporation tax cannot be saved.

TAX PLANNING – OUR TOP TEN TIPS

As we are now in a new tax year, it is worth considering tax planning for the current year. Our top ten planning tips are:

1 The restriction on mortgage interest relief for landlords to the basic rate is being phased in from April 2017, so you could end up with a higher tax bill than expected without any planning – it's not too late! Depending on your circumstances, there are several ways to minimise the impact of the new rules including incorporation, spousal transfers, use of partnerships etc.

2 Now is a good time to review your operating structure to make sure it is tax efficient and operationally effective for your business. The corporation tax rate reduced to 19% from April 2017, so incorporation could be an option, but this would need to be weighed up with the higher dividend rates that were introduced last year.

3 As the personal allowance is reduced by £1 for every £2 of net income over £100,000, those with income of between £100,000 and £123,000 could end up paying tax at an effective rate of 60%. If you expect your income will be close to the threshold, it may be worth considering ways to reduce your taxable income. This could be achieved by making pension contributions, charitable donations or transferring income producing assets to your spouse.

4 Taxable income exceeding £50,000 for the year could lead to a claw back of child benefit. Once taxable income reaches £60,000 the benefit will be lost in full. Reducing or transferring taxable income could help to preserve this benefit.

5 Owner managed businesses should review their remuneration package. A combination of low salary, high interest and dividends could result in tax free income of up to £22,500 (and double that for couples) in 2017/18, if structured appropriately and depending on individual circumstances. See our 'Tax Efficient Remuneration' article for more details.

If you would like to find out more about any of the above, please get in touch.

6 Pension contributions can help to reduce income to avoid higher tax rates and the child benefit tax charge. Hazlewoods Financial Planning will be happy to advise.

7 If possible, you should make full use of your ISA allowance, which is £20,000 for the 2017/18 tax year. Although the investment itself doesn't attract any tax relief, any income generated from it will be tax free.

8 If you have any surplus cash, you could look to make a tax efficient investment. There are various options which typically offer income tax relief at 30%, (but can be as high as 50%), with tax free capital gains on disposal. It may also be possible to carry back an investment made in 2017/18 to 2016/17 to accelerate tax relief.

9 The Capital Gains Tax annual exemption for all individuals for 2017/18 is £11,300, which you should plan to use, if possible. Consideration should be given to the transfer of assets between spouses, such that both utilise their annual exemptions on a subsequent disposal.

10 From April 2017, an additional inheritance tax nil rate band of £100,000 is available on death when a residence is passed to a direct descendent. This allowance will increase by £25,000 each year until it reaches £175,000 in 2020, but is tapered away for estates valued over £2million. We recommend a review of your Will to ensure this and any other tax reliefs will be available, as well as considering any planning to reduce your estate where appropriate.

Not so trivial

It is common for employers to want to provide their employees with gifts or perks during the year.

Less welcome, however, is when we tell them that the gift is subject to tax on the employee.

From April 2016, legislation was introduced to provide more certainty in this area, with a prescribed exemption for trivial benefits. Previously there was no statutory provision, however, HMRC did have guidance which allowed certain trivial benefits without specifying an actual value. A benefit will now only be treated as 'trivial' if it meets all of the following conditions:

- the cost of providing the benefit must not exceed £50;
- the benefit cannot be cash or a cash voucher (but high street vouchers are fine);
- the employee should not be entitled to the benefit contractually (including salary sacrifice); and
- the benefit must not be in recognition of services performed by the employee as part of their employment.

If all of the above conditions are satisfied, the benefit will not count towards an employee's taxable income and does not need to be reported on a P11D.

If the benefit exceeds £50 the whole amount is taxed, not just the excess.

INTERACTION WITH OTHER EXEMPTIONS

The guidance states that where there is more than one potential exemption the outcome most favourable to the employee should be applied. Any staff entertaining events below £50 per head could therefore be treated under the trivial benefits exemption and any larger events may qualify under the £150 annual parties and functions exemption.

This flexibility potentially gives employers the opportunity to provide employees with more perks and benefits than ever before without triggering a tax charge.

ANNUAL CAP FOR DIRECTORS

Directors of close companies (broadly a company with five or fewer shareholders or where all of the shareholders are also directors) can receive benefits totalling a maximum of £300 in any given year. This can be made up of multiple benefits providing each is below £50. For example, if the director has received £270 of trivial benefits during the year and then receives a £50 high street voucher, this benefit would not be exempt. However, if before the year end they then received a £30 bottle of wine, this could be treated as trivial and take their benefit up to £300. Trivial gifts made to family members of the director (who are not employees or directors of the company in their own right) would count towards the director's £300 limit. Rather generously, there is no similar cap for other employees and they can receive any number of trivial benefits during the year.

TRIVIAL OR NOT?

Some of the more common benefits have been set out in the table below, including examples of circumstances where they may or may not qualify as a trivial benefit.

TOO GOOD TO BE TRUE?

The new rules appear to be extremely generous and offer employers the opportunity to provide their employees with perks without the negative tax implications. We wouldn't be surprised if HMRC tighten the rules in the future or impose further annual limits, so you may want to seize the opportunity to treat your employees now.

TRIVIAL BENEFITS	NOT A TRIVIAL BENEFIT
High street voucher worth £50 or less for a non-work related event e.g. Christmas, new baby, marriage etc.	Gift voucher of any value provided to employees for meeting certain performance targets or 'sales person of the month' etc.
Meal provided by the employer to celebrate birthdays or other events (e.g. summer party) where the average cost per head is less than £50.	Gift provided at Christmas where it is possible to determine the cost per individual e.g. bottles of wine provided to the directors at a cost of £60 each but to other employees at £15 per head, only the latter would be exempt.
Turkey/wine/chocolate provided at Christmas provided the cost does not exceed £50 per individual.	Taxi provided from work to home after working late (but may qualify under the late night taxi exemption).
	Christmas party at a cost of greater than £50 per head (but may qualify under the annual parties and functions exemption).

NASDAL STATISTICS – HOW DO YOU COMPARE?

The National Association of Specialist Dental Accountants & Lawyers (NASDAL) has recently published its annual report on the average income and profits of dental practitioners for the year ended 31 March 2016.

HERE ARE SOME OF THE KEY FIGURES:

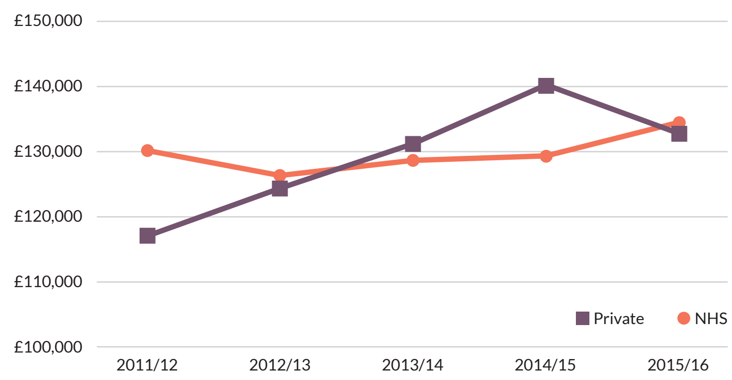
- NHS average net profit per principal up by 3.7% to £134,102
- Private average net profit per principal down by 4.6% to £133,743

Average turnover per principal has increased by over 9% for NHS practices, whilst that for private principals has decreased by 4.7%. These have both had an impact on profitability.

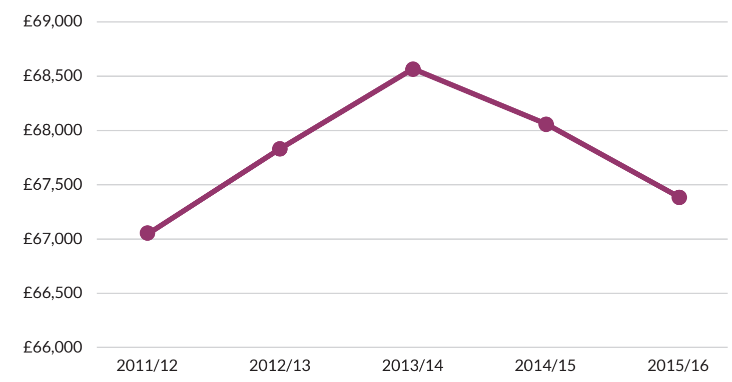
In 2014/15 average turnover per principal for a private practice increased by over 8%. Is there a time delay, with NHS turnover following private's increase with its own this year? Will NHS turnover have declined in 2016/17, following the trend set by private practices in 2015/16?

Associates have seen a small drop in turnover, down by 0.8% to £82,857. This has filtered straight through to the bottom line, resulting in a 0.9% reduction in profit to £67,389.

Copies of the detailed NASDAL statistics are available to our clients.



PRACTICE PROFIT PER PRINCIPAL



ASSOCIATE PROFIT

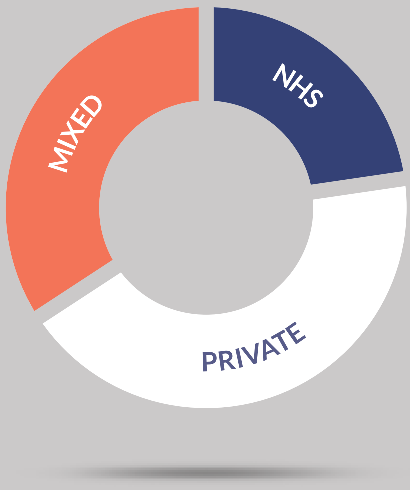
SALARY SURVEY – THE RESULTS!

At the end of 2016 the Hazlewoods Dental Team and ADAM carried out a joint survey in order to obtain a better understanding of current rates of pay within the dental sector. This is the third year of the survey and there were more than twice as many replies compared to last year, which is fantastic. Thank you to all who responded.

All of the figures in our report are representative based on the data collected and are intended to be for information and discussion purposes only, not categorical statements of salary levels.

The survey collected data from the following mix of dental practices:

TYPES OF PRACTICE



A private/NHS practice is defined as one where more than 80% of turnover is private/NHS respectively. All other practices are classed as mixed.

The results show average hourly rates of pay ranging from £7.01 to £15.93. Information in respect of hygienists was also collected.

When determining the hourly rate for staff you should consider many different factors including experience and qualifications, type of practice, regional variations and the local job market, attraction and retention of staff, together with legal requirements such as the National Minimum Wage, equal pay legislation etc.

The survey requested various information relating to the practice, including region, type, specialisms and size, together with details of the experience and salaries of key employees. More detailed analysis can therefore be undertaken and is available to our clients.

Please get in touch if you would like more detailed information or wish to discuss how you can benefit from being a Dental Team client.

ADAM
Association of Dental Administrators and Managers

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