



DENTISTS NEWSLETTER

OCTOBER 2009

Continuing our specialist newsletters for the medical sector we are pleased to enclose the first in our new series of bi-annual newsletters for dentists.

USE OF HOME

Although dentists work predominantly at their surgery it has been traditional for their accounts to incorporate a claim for use of home as office, to cover the cost of work done at home such as writing up notes, home study etc. In the last few months HMRC have given some guidance on the criteria they use to consider deductions for use of home as office, as follows:

- The method that has long been used of claiming a proportion of the running expenses of the house, based on the number of rooms will only be accepted if part of the house is used exclusively for business purposes. Unfortunately capital gains tax will become a consideration on a subsequent sale, with the part of the gain attributed to the exclusive business use being taxed.
- The more likely scenario is that there will be no rooms with exclusive business use to avoid the capital gains tax liability set out above, and if that is the case a claim for a specific proportion based purely on the number of rooms will no longer be allowed. For example, a house with seven rooms, of which one, is used

partly for practice work. The Revenue expect the claim to be based on one seventh of the running costs of the house, reduced to reflect the actual use of the room for practice work typically based on actual hours as a fraction of the total available hours per week.

- Where use of home claims are based on a fixed amount per week, the maximum amount HMRC will normally accept without further evidence is £3 per week, unless a higher amount can be justified on the basis of the extra costs incurred over and above the normal running costs of the house as a result of practice work being done at home.

These new guidelines, take effect from 6 April 2008 onwards, and our view is that in the vast majority of cases it will now be very difficult for dentists to claim a deduction of more than £156 per annum for use of home as office.



CAPITAL ALLOWANCES

When carrying out surgery refurbishments a detailed analysis of the expenditure is always essential to ensure the maximum tax relief is obtained. Builders can be somewhat economic on occasions with the detail included on their invoices so we would always recommend these are accompanied if possible by a quotation or schedule of works so that repair items which qualify for immediate tax deduction can be identified. In addition, many improvement items may qualify as plant, and so be eligible for inclusion within the annual investment allowance (AIA) which allows the first £50,000 of expenditure on plant to be written off in full for tax purposes in any accounting year.



ASSOCIATES' CONTRACTS

Following the introduction of the new contract in 2006, it is vital for principals to ensure the contracts they have with their associates are up to date and have been renewed since then. A pre 2006 contract can give rise to problems, particularly where there is a shortfall in UDAs in any year and therefore an up to date agreement is essential to avoid possible disputes.



CORPORATE DENTISTRY

With the rise in the income tax rate to 50% on incomes over £150,000 from 6 April 2010, it could be said that the lifting of the restrictions on dentists operating through limited companies provides a possible tax planning opportunity. A dentist who incorporates his/her practice will become a shareholder/employee of the company, and will then have the ability to determine their overall level of income for income tax purposes and it would be possible to draw a combination of salary and dividends which could keep overall taxable income within the limit of £150,000.

Transferring the practice to a limited company in this way presupposes that it will eventually be possible to extract the net income left behind in the company at a rate of tax no higher than 40%. If this cannot be done then clearly there is no real merit in incorporating the private practice. For individuals who will not fall into the new 50% tax band but have significant income liable at 40% the same considerations apply. Incorporation will only be an advantage if the income retained in the company can be withdrawn subsequently without incurring a 40% income tax charge. In many

cases this is difficult to achieve, because it means the shareholder/director can only draw salary/dividends sufficient to cover the basic rate tax band if any real saving is to be achieved, and this may be an unwelcome constraint.

There are also other considerations, such as the additional compliance costs which will arise in operating via a limited company, the need to place financial information, albeit in abbreviated form, on public record at Companies House, and the need to rearrange existing contracts, notably Medical Protection Insurance in the name of the company. If you hold an NHS contract the PCT could be reluctant to transfer this to a limited company, and might take the opportunity to renegotiate the contract which may not be in your favour.

We have always been reluctant to suggest to clients that they should consider incorporating their businesses purely for tax reasons. Although companies currently pay corporation tax at a rate of 21% on profits up to £300,000, a tax saving can only be achieved if the companies net profits can subsequently be extracted at a lower rate of income tax than would be incurred if the client

operated as a sole trader. The raising of the top income tax rate to 50% for high earners does change the situation somewhat although the strategy of incorporating is dependent to some extent on the top rate of income tax being lowered to 40% again at a later date. If this is a matter that you would like to discuss further, please do not hesitate to contact us.



DISCLAIMER

This newsletter is intended to give general guidance only and no liability can be accepted for any action taken based on the information given. For advice on any queries arising from the topics covered above please take specialist advice.

If you require further advice on any of the topics covered in this newsletter please contact Debbie Wakefield or Alison Wagerfield.

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