

The entrepreneur's £1m CGT relief

The announcement by the Chancellor of the Exchequer, that he is to modify Capital Gains Tax (CGT) brings good news to dental practice owners. From April, Alistair Darling is introducing a new entrepreneur's relief which represents a valuable concession to dentists planning to sell their practice.

Bob Cummings, NASDA's tax specialist, explained that the first £1m of capital gains will qualify for relief and CGT will be charged at an effective rate of 10 per cent. Gains in excess of £1 million will be charged at the normal 18 per cent rate.

He said the introduction of the entrepreneur's relief represents a significant climb-down from the Chancellor's Pre-Budget report in October last year when he announced he was getting rid of taper relief. A flat rate charge of 18 per cent would increase considerably the tax on the sale of a business.

But the Chancellor faced such a furore from the business community that before Christmas he said he would re-think the situation. The result was that last month (on 24 January) he announced a concession for entrepreneurs – the option to claim for relief for the first £1m made from a capital gain.

There is a small sting in the tail, Bob warned. Many will lose sight of the fact that tax bills will still rise by just over £2,000 in most dental practice sales. This is because tax relief on the annual exempt amount is effectively reduced to 18%. Under the business taper relief rules tax relief was at 40%.

There may be some unusual cases, he said, where dentists who established their practice prior to 1998 will suffer a substantial tax increase. Some practice owners in this category will lose the indexation relief intended to take inflationary gains out of tax.

Overall, however, the latest announcement is a major improvement. Alan Suggett, a member of the NASDA technical committee, said it's almost as if the relief could have been designed with dental practice owners in mind, as the limit of £1 million will cover most sales and incorporations. He added: "It's good news that incorporations will still be a sensible tax planning option to consider, helped by the fact that shares in trading companies are also included within entrepreneurs relief."

"What NASDA members would also like for their clients, the cherry on the cake if you like, would be consistency amongst PCTs in allowing changes in practice ownership to occur. Currently, some PCTs are making practice sales difficult, while others are co-operative. We would like to see a more even-handed approach everywhere.

Editor's Note

NASDA members are specialists in dental accounting and between them represent one fifth of dentists working in practice.

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