

Beware of tax traps on practice sales

The introduction of Entrepreneurs' Relief last year has created a potential pitfall for any dentist selling their practice or practice share without taking specialist tax advice.

Entrepreneurs' Relief is good news for small businesses, including dental practices, because it allows gains to be taxed at only 10% rather than the new 18% business tax introduced by the Chancellor last year. Any gains above £1m are subject to an 18 per cent tax rate.

But there are circumstances in which the relief will not apply and a dentist who does not take advice may find that they are paying tax at 18 per cent rather than 10 per cent.

John Flewitt, partner at Menzies (a firm of Chartered Accountants) who are members of the National Association of Specialist Dental Accountants (NASDA), is highlighting the potential problem in support of dentists considering a practice sale in 2009.

He explained the background: "In the Finance Act 2008, the Chancellor removed taper relief from capital gains on business assets. This relief often resulted in the equivalent of a 10% rate of tax on certain gains. When the Chancellor reduced the top rate of capital gains tax from 40% to 18%, there was an outcry that most gains on business assets would rise from 10% to 18%. As a result of lobbying by NASDA and other organisations, entrepreneurs' relief was introduced."

He continued: "For dentists the most likely assets to attract capital gains tax on a sale are the surgery and any practice goodwill. To qualify for relief there must be a disposal of the whole or part of the trading business, the sale of a property in isolation will not qualify."

"Thus, a partner who owns the surgery property outside of the practice will only qualify for the relief if it is sold at the same time as he retires (or withdraws from participation in) the practice."

Mr Flewitt added that if full market rent had been paid by the practice to the partner after 5th April 2008, there would be restricted relief. This might include profit sharing arrangements where only the property owning partners get an initial fixed profit share.

Fortunately, he said, disposal of practice goodwill would, in most instances, be eligible for entrepreneurs' relief, as it is treated as a disposal of part of the business. However, if the practice is incorporated then there are more detailed requirements to qualify for the relief.

All in all, the legislation which introduced entrepreneurs' relief is complicated and specialist advice is imperative for any dentist considering a sale.

**For more information, contact John at 01784 497100 or jflewitt@menzies.co.uk
Alternatively, to find a NASDA member in your area, go to www.nasda.org.uk or call 0870 601 0230**

The National Association of Specialist Dental Accountants (NASDA) was formed in 1998 to promote high standards in dental accountancy and business advice. It now consists of around 36 firms throughout the UK. Members abide by the standards of the NASDA charter and meet twice a year to share information. To speak to a member in your area, call 0870 6010 230 or go to the website at www.nasda.org.uk

For more information or for a copy of the NASDA press conference presentation, contact Caroline Holland on 020 8679 9595 or caroline@carolineholland.eu