



The route to incorporation is still open

Dentists who want to incorporate can still do so despite the changes introduced last year following from the Chancellor's Autumn Statement. It may not be quite so favourable or so straightforward but for some dentists it's still worth exploring. This is the view of NASDAL member Nick Hancock, a specialist dental accountant with the Taunton firm Albert Goodman LLP.

The popularity of incorporation has grown among dentists since it became legal to operate as a limited company. Some 23 % of dental practices have incorporated since 2006. Nick explained that prior to December last year, there were two important tax advantages of incorporation.

- tax savings when transferring goodwill to the company
- tax relief on the goodwill write down in the company (where the business either started after 1 April 2002 or it was acquired from an unconnected party)

A transfer of goodwill would typically involve selling it to the company, with capital gains tax due at 10% under entrepreneur relief rules ("ER"), in return for a large loan account that could then be drawn down on tax free. The dentist then also benefited from further ongoing tax savings, once his loan account was exhausted, by taking profits out as a mix of basic salary, topped up by dividends, and then often making even more savings by introducing their spouse into the business as a shareholder.

Since 3 December 2014, ER is no longer available where goodwill is transferred to a company *related* to the transferor. A related company will broadly be one owned by the dentist, or any of his business partners or relatives.

This means a tax charge at 28% will now apply to any gain realised on the disposal of goodwill on an incorporation of a business, although there are ways to defer this charge depending on how the business is incorporated. Nick points out, however,

that a 28% charge might still be quite attractive if the dentist is making profits that would otherwise be taxable at 42-47%.

In addition to the withdrawal of ER on goodwill from 3 December 2014, the company can no longer get full tax relief on the write down of the goodwill over the course of its useful life to the company, in many cases only getting relief for its cost on any eventual disposal of the business by the company.

Nick commented: "Dentists should not be deterred from investigating incorporation or from incorporating a newly acquired practice. However, the order of the transactions can be important and relationships between the practitioners should be carefully considered."

"For some dental practices, incorporation remains a beneficial option but one that should be explored with caution and with the right advice."

If you would like further advice, please contact either Tax Partner, Tracey Watts at tracey.watts@albertgoodman.co.uk or Nick Hancock at nick.hancock@albertgoodman.co.uk.