

Dentists



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Some Industry specific areas of advice from our experience

VAT: As dentists are generally unable to claim back VAT suffered on business inputs, skilled but non VAT registered tradesman are handy to know.

What used to be known as the 'toothbrush trick' for VAT claims no longer works.

There can be annual tax/NI savings to be had by operating from within a limited company but with any premises being owned personally or jointly with a spouse..

Is ownership of the business correctly set up such as to minimise the various taxes and maximise the tax reliefs?

Beware of likely HMRC challenge to tax relief on training courses or conferences that lead to new skills rather than honing existing skills.

What are your future plans? Exit strategy or next generation involved? Is there a plan in place to achieve this?

Wills: are they tax efficient particularly as regards the business?

Should spouses be shareholders of the business in order to reduce overall tax bills?

Are profit shares/extraction of profits made in the most tax/NI efficient way?

Can tax efficient wages be legitimately paid and justified to family members?

Are owners and staff arrangements of vehicles maximising tax reliefs ?

Where practical, part time workers can be considerably more cost effective due to employers NI savings compared to full time.

Is a change of accounting date a good idea?

Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?

Industry Background

As far as the National Health Service (NHS) is concerned, dentists are independent contractors responsible for running their own businesses. Dentists usually operate as either a sole practitioner, or a sole practitioner but with an expense sharing agreement with others or as a partnership and, only since 2006, as a Limited Company.

The income generated by NHS work as well as private patient work is likely to vary considerably from practice to practice; some dentists undertake no private work at all, others have a mix of private and NHS patients and others work entirely in the private sector. With some exceptions, patients receiving NHS dental treatment have to pay patient charges and these payments are deducted from the monthly payment paid to the dentist.

Since 2006 Primary Care Trusts (PCTs) are responsible for commissioning NHS dental services in their area. They enter into contracts with dental providers to provide General Dental Services (GDS) and dentists are paid according to the units of dental activity (UDA) they have agreed to deliver under the terms of their contract. The contract may be for a single dentist or a group of dentists and in some cases the dental provider may not be a dentist at all. For example, the dental provider may be a company which employs dentists to fulfil the terms of the contract. The dentists providing the dental services under a contract are referred to as dental performers. Where the provider and the performer are one and the same, they are referred to as 'providing-performers'

General dental practitioners have for many years maintained that the NHS dental remuneration system was inadequate. It was based on the flawed concept of the 'average' dentist and 'average' workload; low fees meant that a high volume of work had to be done to maintain a viable practice; if too much work was done (and reimbursed) in one year, the profession was financially penalised in the next. This situation became known within the dentistry profession as the "treadmill".

According to the BDA, in their October 2006 submission to the Doctors' and Dentists' Review Body:

"...the government's stated intention of improving patient access, taking dentists off the treadmill and enhancing the emphasis on preventive care appears to have materially failed. Instead, a workforce plagued by uncertainty within the NHS looks increasingly likely to exercise choice in the provision of dental services and move towards providing care in the more attractive private sector; an environment in which they have more control, certainty and security in their future."



Some Industry specific areas of advice from our experience (cont'd)

Has the strategy on owners' company cars been reviewed in the light of taxable benefits and capital allowances now being driven (no pun intended) by CO2 emissions? (It can now even make sense for the company to provide low emission cars to non-employee family members such as children!)



During 2008 it became apparent that the situation was deteriorating more and more dentists were moving to the private sector so that patients continued to experience difficulties in accessing an NHS dentist. In November 2008 Department of Health figures revealed that 1.2 million fewer people in England and Wales had seen an NHS dentist in the two year period to June 2008 than during the last two years of the 'old' contract.

Following an independent review of NHS dentistry it was announced in June 2009 that key recommendations of the report would be piloted before changes to the existing contract were rolled out nationally. Key proposals include a return to capitation payments, a reduction in the income received from Units of Dental Activity (UDAs) and the introduction of Key Performance Indicators (KPIs). To maintain the value of each dental contract the practice would have to achieve these KPIs.

Both the BDA and the DPA provide advice to those members wishing to convert to private or independent practice, this is a move which should be carefully researched and managed to be successful. In some cases the nature of the patient profile is such that the provision of private services is not an option.

Details of patients treated, the fees due and the patient charge collected are included on the monthly schedule supplied with payment by the NHS Business Services Authority. This should be carefully checked against the practice records to ensure that the entries are correct. For example, that patients who are eligible to exemption or remission of charges have been correctly identified and the right fee paid.



Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?

Financial Performance

The general dental practitioner's income may derive from a variety of sources, including:

- Dental services provided privately. Some payment schemes make payment direct to the dentist
- Dental services provided as part of the General Dental services contract with the NHS, for which dentists receive 12 equal monthly payments.
- Part-time appointments
- Miscellaneous fees, for example, for acting as expert witness
- Sales of consumables such as toothpaste and other dental health products or fashion items such as tooth jewellery
- Miscellaneous cosmetic treatments such as Botox injections
- Cancellation charges, although in many cases these are not collected
- Sales of waste metals to recycling firms
- Rents from dental technicians/hygienists working within the practice premises on a self-employed basis
- A range of cosmetic dental treatments, such as tooth whitening

Key Performance Indicators

Performance in a dental practice is generally assessed in terms of the gross profit as well as the relationship between practice expenses and gross fee income which is known as the practice: takings ratio.

As there are wide variations in dentists' working patterns and practice organisation, the relationship between the cost of lab fees/purchases of dental consumables and gross fee income may also prove to be a consistent performance indicator.

Some dental practices sell a range of dental care products such as floss, toothpaste, toothbrushes or other oral health products. The gross profit returned on the sale of this type of product will depend on the practice's pricing policy.

It is an arithmetical fact that the higher the average gross profit percentage rate that can be achieved the less turnover is needed to cover overheads and a reasonable level of profit.

Ask us how your numbers compare.

Ask about our own award winning "tax tools" software including "business profitability analyst" based on key driver information.



Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC's stated aim is to spread the investigation net to cover all sectors, including dentists. Additionally, HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter.

HMRC are given absolute discretion in deciding which businesses to investigate and have extensive powers to demand information and inspect business premises and records to check a person's tax position. Inspectors need to give no reason for carrying out an investigation but they can be challenged before a Tribunal to show that any information demanded is reasonably required.

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be it VAT, PAYE or tax affairs generally.



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