

Buying/Selling and Succession Planning for your Dental Practice



Know what you are buying/selling (Due Diligence)

- Goodwill Valuation
- Review accounts – consistency of income
- Length of establishment
- Location
- Practice amenities
- Dentist population ratio
- Patient list
- Vendors future plans/reason for sale



Know what you are buying/selling (Due Diligence)

- Property – Freehold vs Leasehold
- Rent, rent reviews, condition of property etc
- Staff and systems
- Business plan
- Marketing & development plan
- Equipment



Steps towards sale/process of sale

- Pre-sale Due Diligence
- Professionals e.g. Agents/Solicitors/Accountants
- Negotiations
- Heads of Business agreement
- Exchange of contracts
- Completion



Tax Mitigation - Accountant

An accountant would work under the GAAP Accountancy rules by looking at the company's receipts and sales

A majority of accountants are small firms specialising in VAT and Accountancy, but not Tax Planning

If you went to your GP with chest pains you would be worried if they started to operate



Tax Mitigation – Tax Advisor

Accountants look at your business historically whereas Tax Advisors look further

Tax Advisors have greater experience of transactional activities

If you want to reduce the amount of tax you pay on buying/selling a business ask a Tax Advisor for help



Business Structure – Sole Trader

- the simplest and cheapest way of trading
- only a few formalities to trading this way, the most important of which is informing HMRC
- prepare accounts each year which form the basis of how you pay your tax and national insurance
- profits generated are automatically yours
- sole trader is not distinguished from the proprietor's personal affairs so that if there are any debts, you are legally liable to pay those debts down to your last worldly possession



Business Structure – Partnership

- is an extension of being a sole trader
- a group of two or more people will come together to share skills/ideas
- partners will agree to share the joint profits in pre-determined percentages
- advisable to draw up a Partnership Agreement
- taxed in the same way as sole traders, but only on their own share of the partnership profits
- you are 'jointly and severally' liable for the partnership debts, so that if certain partners are unable to pay their share of the partnership debts then those debts can fall on the other partners



Business Structure – Ltd Company

- Can help to minimise your overall tax and national insurance liability
- Pay corporation tax on profits after paying your salary but before your dividend distribution
- There are additional administrative factors in running a company, such as statutory accounts preparation, company secretarial obligations and PAYE (Pay as You Earn) procedures
- Big advantage of owning a limited company is that your personal liability is limited to the nominal share capital you have invested



Business Structure – Ltd Company

- a separate legal entity from its owners
- ownership of the company is recognised by owning shares in that company
- you are both the owner and an employee of that company
- company profits are the company's property
- pay yourself a dividend, as an owner, or a salary, as an employee



Buying/Selling an unincorporated business

The main way in which to buy a business is through acquiring the trade and assets in exchange for an offer of cash

Capital gains tax (CGT) liability will normally arise for the seller



Capital Gains Tax (CGT)

The chargeable assets of a business include:

- The business premises, whether freehold or leasehold.
- Trade marks and patents.
- Goodwill.
- Occasionally, items of plant and machinery sold for more than their original cost.



The Seller's CGT Liability

The seller is chargeable to CGT on the sale of each chargeable asset of the business.
In a partnership, each partner is chargeable on their share of the gain on each asset sold.
The basic capital gain or loss on an asset is calculated by deducting from the sale proceeds the costs of buying, selling and improving the asset.



CGT Entrepreneurs' relief

A sole trader or partner may be able to claim entrepreneurs' relief on disposals of the whole or part of a trading business.
It reduces gains by 4/9ths, resulting in an effective rate of 10% (5/9ths of the gain taxed at 18%).
The relief is available on gains of up to £1 million.



CGT Rollover relief

If the proceeds of the sale of qualifying business assets are reinvested in further qualifying business assets, any gain can be 'rolled over' until the disposal of the new assets.
Rollover relief benefits traders who reinvest the proceeds from selling business assets in buying replacement business assets. The capital gains on the old assets are calculated in the normal way.



CGT Rollover relief

Assets that qualify for rollover relief include:

- Land and buildings, whether freehold or leasehold, used and occupied by the trader.
- Fixed plant and machinery.
- Goodwill.



CGT Reinvestment relief

An individual can defer gains on any assets by making a qualifying investment under the Enterprise Investment Scheme (EIS).

Any size of gain can be deferred.

The investment must consist of new eligible shares in a qualifying trading company or holding company of a trading group

There are many conditions



Inheritance Tax (IHT) Business property relief

- Sole proprietor
- Partnership
- Trading company (non quoted)



Inheritance Tax (IHT) Business property relief

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- Sole proprietor
 - Partnership
 - Trading company (non quoted)
- 100% relief
- Practice occupied by company in which transferor has control
- 50% relief

Conditions

2 year ownership

Wholly or mainly test

Not subject to binding contract

Non investment companies

Excepted assets



Income tax - Buyer

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There are special rules for calculating the taxable profits when an individual or partnership starts carrying on a business.

The first year's income tax assessment is based on the profits for the period from the start of business to the next 5 April



Income tax - Buyer

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The basis of assessment for the second tax year depends upon the accounting date adopted. In practice, the basis period for year two is normally either:

- The 12 months to the accounting date in year two,
or
- The first 12 months from the start



Income tax - Buyer

In year three and subsequent years, the period assessed is normally the 12-month accounting period ending in that tax year



Income tax - Seller

On sale you are taxed on the same basis as if you had ended that business

The final year's income tax assessment is for the tax year in which the sale occurs

The assessment is based on the profit for the period beginning immediately after the end of the basis period for the preceding year and ending on the date of cessation



Losses - Seller

The seller might be entitled to terminal loss relief if the business has made a loss before being sold.

Losses relating to the final 12 months of trading can be set against profits in the three years before the final year of assessment, relieving the most recent year first

Any losses that remain unused are lost and cannot be transferred to the buyer



Buying and selling an incorporated business

There are three main ways to buy a business owned by a company. The buyer can:

- Buy the company's business and its assets
- Buy the shares in the company for cash
- If the buyer is a company, buy the shares in exchange for an issue of its own shares or loan stock.



Limited Company – sale of the business

- The buyer can buy the business from the company
- The company is then the seller
- The seller company is chargeable to tax on capital gains on the sale of each chargeable asset of the business



Limited Company - CGT

Companies' chargeable gains are calculated in a broadly similar way to gains made by individuals

An indexation allowance is given on the costs of assets from the date of purchase to the date of disposal

Companies do not qualify for entrepreneurs' relief.

A company's chargeable gains are included in the profits and charged to corporation tax at whatever rate applies to the company.



Ltd Company - Distributing the sale proceeds

If the gains made by the company are distributed to the shareholders, the shareholders will usually be liable to further tax. This is the main disadvantage for the seller of this type of sale, unless the company purchases another business or has a continuing activity in which the sale proceeds are to be used.

There are several ways of extracting the profits from the company that arise from selling the business. They include paying dividends, paying directors' remuneration and liquidation resulting in a capital distribution.



Sale/Purchase of a company

A buyer might buy the shares in the company that owns the business, instead of buying the underlying business itself

The seller will often prefer to sell the shares rather than the assets as this avoids a double tax charge on the sale of assets by the company followed by the extraction of the proceeds from the company.



Sale of a company - CGT

The seller's has CGT on the sale of their shares. There is no rollover relief on the sale of shares, but reinvestment relief under EIS might be available.

Entrepreneurs' relief is available on a sale of shares in a trading company, or holding company of a trading group, where for at least one year ending with the sale the seller:

- Has been a director or employee of the company, or of a company in the same group of companies, and
- Has owned at least 5% of the ordinary shares, which carry at least 5% of the voting rights



Conclusion

Buying or selling a business is one of the most important financial decisions you can make. The multitude of different routes available and the many choices that can be made mean that there is plenty of scope for both arranging a good commercial deal and also mitigating the tax liabilities that will inevitably arise.



Disclaimer

These presentation notes are for guidance only and professional advice should be obtained before acting on any information contained in them. No responsibility can be accepted for loss occasioned to any person as a result of action taken or refrained from as a result of reading these notes.



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Good Luck

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