

# Limited Companies – Are they right for you?

Samera Ltd – August 2006

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DENTAL CHARTERED ACCOUNTANTS

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# Introduction

- Since 31 July 2006 dental practices can now operate as Limited Companies
- The majority of directors must be registered with the GDC
- There *may* be tax savings but each situation varies and therefore it is essential you seek professional advice from Samera

# Summary - 5 steps to turn your dental business in to a Ltd Company

## 1. Feasibility

- Is incorporation right for you?
- Advantages/disadvantages of Ltd co's
- Evaluation of current business performance
- Evaluation of current business systems

- Indicative Fees**
- £585+VAT for a feasibility assessment

## 2. Tax Planning

- New practices may benefit from being Ltd from the start
- Existing practices convert using either
  - S162
  - S165
- Identify most tax efficient method
- Valuation of existing practice

- Dependent upon the complexity of the case – charged hourly
- Separate valuation

## 3. Forming a company

- Select company name
- Form company with Companies House
- Open bank account
- Legal work associated with formation
- Cease sole trader/partnership business

- Company formation - £450+VAT
- Remuneration planning – charged hourly

## 4. Maintaining a company

- Onerous Director's responsibilities to Companies House
- Maintaining excellent books and records

- Monthly Companies House obligations etc – from £95+VAT/month

## 5. Annual reporting

- Prepare annual company accounts
- Submission of accounts to Companies House
- Company secretarial work to be performed
- Company subject to corporation tax – 19%

- Separate fees for accounts preparation and corporate tax issues in region of £2000-£2500

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# 1. Feasibility

- Separate legal entity
- Independent of its owners/shareholders
- Limited liability
- Infinite existence – although ownership could change hands from time to time
- Operates in a much regulated manner
- We perform an assessment of your current situation as to

# Should I Incorporate?

- From a taxation point of view, the answer depends on.....
- Your current and future earnings
- Your tax bracket
- The remuneration methods you choose
- Tax laws
- Seek expert advice from Samera to evaluate your specific circumstances

# Key Advantages!

- Limited liability as compared to being a sole trader or partner
- Perceived status
- Easier to transfer ownership
- Better organisational form when two or more owners are involved!
- Potential tax savings
- Opportunities for growth/expansion

# The Disadvantages!

- Wider responsibilities as directors!
- Much tighter financial controls - bureaucracy
- Fines and charges for late filing
- Additional tax liabilities due to “benefits in kind”
- Perceived wider “social responsibility”
- Setting up costs, admin costs and annual accountancy charges

# Questions:

- What is my current business performance?
- Does the performance justify incorporation?
- Do I have sufficient systems in place to be a limited liability entity?

## 2. Tax Planning

- New start up practices have a much more straight forward way i.e. commence operations as a limited company from inception
- For existing practice owners, it's slightly complicated

# Existing practice?

- It's a process of transferring existing assets and liabilities into a Ltd Co
- Careful tax planning is necessary to identify tax planning opportunities
- Two main approaches to transfer assets and liabilities
  - A. Transfer in exchange of shares
  - B. Transfer by way of a "sale at under-value"
- An up to date valuation of the existing practice will be required

# A – Transfer in exchange of shares

- Form a Ltd Co.
- Transfer the sole trader / partnership in exchange of shares in the new Ltd Co.
- To qualify for tax relief, all business assets should be transferred
- Assets to be transferred at their current market values in exchange of shares in the Ltd Co
- You will not pay CGT, if the consideration is represented by shares

# A – Transfer in exchange of shares

- From Company's point of view, future CGT liability can be minimised since assets are transferred at market values
- Owner cannot choose which assets to transfer, hence if land buildings are involved it'll attract stamp duty
- Could be attractive to dentists operating from rented premises

# B - Transfer by way of a “sale at undervalue”

- Form a Ltd Co
- The required level of capital in the company would then be raised by issuing shares
- Assets owned by the sole trader or partners can then be transferred in to the Ltd Co as gift or at value that'll not attract CGT

# B - Transfer by way of a “sale at undervalue”

- However, assets should qualify as business assets
- Advantages
  - ✓ No CGT on incorporation
  - ✓ Owner can select which assets to transfer and which assets to retain
  - ✓ Retained assets, such as buildings could be used to draw money from the Ltd Co by renting etc

# B - Transfer by way of a “sale at undervalue”

- Disadvantages
  - ✓ Ltd Co could potentially pay more CGT, (on disposal) since assets were acquired at very low cost
  - ✓ Directors could potentially pay more CGT (on disposal of shares) since shares were allotted for a nominal consideration

# 3. Forming a company

- Formation of a new Limited Company
- Whether a start up or an existing dental practice first step is to form a Ltd Co.
- Two options are available
  - Buy an “off the shelf company
  - Create a new company with your chosen name
- Bank account set up for new entity
- Cease sole trader/partnership business

# 4. Maintaining a Company

- Day to day responsibilities of directors
- Directors are personally responsible for the following
  - ✓ Submission of annual accounts
  - ✓ Submission of annual return
  - ✓ Notify change of directors, secretaries or their particulars
  - ✓ Notify change of registered office address

# Tight regulation

- Final responsibility lies with the directors, even if the above work could be delegated to third party
- One of directors should be nominated as the company secretary and he/she should ensure the following
  - Maintain a register of shareholders
  - Maintain register of directors and secretaries

# Company Secretarial Issues

- Maintain a register of directors' interests
- Ensure all statutory forms are submitted on time using prescribed forms
- Convey AGM etc and meetings to pass special resolutions
- Provide copies of the annual accounts to shareholders
- Maintain minutes of board meetings and general meeting

# Extracting profits

- Further tax planning opportunities / tax efficient opportunities to extract profits
- Withdraw profit in the form of a dividend and a salary
- Employ your spouse
- Let personal property to the company

# 5. Annual Reporting

- Prepare annual accounts
- Submit to Companies House annual accounts – public disclosure of information
- Preparation of Annual Corporation Tax calculations
- Further tax planning

# Indicative Fees

- Pricing Structure
  1. Feasibility Assessment
    1. Is incorporation right for you?
    2. Detailed financial assessment and qualitative assessment of your business
    3. £585+VAT
  2. Tax Planning
    1. Assessment of approach to tax savings
    2. Fees charged on an hourly basis
    3. Valuation of practice – Performed by an external agency
  3. Setting up Company/LLP
    1. Setting up company with:
    2. Memorandum and Articles of Association
    3. Tailored to New Dentists Act
    4. Director appointment
    5. Shareholder structuring
    6. £450+VAT
  4. Ongoing Company Secretarial Support and Corporate tax
    1. Company secretarial work
    2. Annual return
    3. Ordinary and Special Resolutions
    4. Directors tax calculation
    5. Corporation tax return
    6. £95+VAT per month
  5. Annual accounts preparation and specialist tax planning – Annual accountancy preparation fee and also specialist advice charged on an hourly basis. Fees from £2000-£2500+VAT

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# Summary

- The area of Limited Companies for dentists is a complex area and requires expert advice from Samera
- Limited Companies are NOT for everyone
- If you wish for us to assess if Limited Companies are for you and perform a feasibility study please get in touch.