

The original and authentic Practice value index

A potential time bomb

With new rules and regulation comes a new undulating field of fees and service level, says Frank Taylor & Associates

Our core business is to value and sell practices and as the leading independent agent in England and Wales we meet and deal with numerous principals. One of the issues we see during the sale of a dental practice is an issue around capital allowances – little publicised but potentially a time bomb!

If you are either involved in buying or selling commercial property (ie, dental practice) then changes brought about by the Finance Act 2012 that made certain provisions regarding capital allowances in property at point of sale will have an impact on you.

Many solicitors have found themselves in a situation where they are being asked to advise on areas of tax law that they do not feel fully comfortable dealing with and will refer back to the client's accountant, but the problem is many general practice accountants do not have the necessary resources or detailed specialist knowledge either. This tends to be the point when delays can start to kick in and the challenge for a principal trying to sell his practice or an associate trying to buy a practice is every delay can potentially damage and derail a sale.

When we value a practice where there is a freehold (be it for private sale or sale on the open market) we will always discuss the issue of capital allowances; frequently the principal may be unaware if this claim has been made and may often assume it has been dealt with by the accountant.

Practice one – East Sussex

Practice location – this practice occupies a one-storey detached property situated in close proximity to local shops and residential areas. It is very much a commuter town and the practice is within five minutes' walk of the station.

Practice type – this is a two-surgery fully private practice. The practice is being sold with the freehold and the sale is to allow the current principal to pursue his interest in implant work.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £160,000. The gross has been generated by the principal working three days a week, one hygienist working one session a week, a nurse working three days a week and a receptionist.

Price achieved – a price of £215,000 was achieved, which was below the asking price.

Agent's comments – here is a practice that has great potential for development. The current principal only works three days a week and with his own serious interest in implants his driver has been to develop this side of the practice. The new principal has a great opportunity to grow the practice and extend the range of services. The principal accepted a below asking price offer as he wanted to pursue his own interests elsewhere.



We work very closely with a company that specialises in capital allowances and always recommend the principal take a few minutes to discuss this issue with one of their specialist advisors.

Auto-enrolment

Another issue facing practice owners is the introduction of auto-enrolment and the focus has now switched to around 1.6 million small (five to 49 employees) and 'micro' employers (between one and four employees), ranging from dentists, pharmacists, hairdressers and newsagents to individuals who employ a nanny or carer. Two-thirds of these employers have between one and four members of staff, and of those, nearly half employ just one person.

The 5.4 million employees that have already been enrolled into a workplace

pension scheme have come from approximately 200,000 employers over a three-year period. These are businesses that have existing pension advisers, human resources and payroll departments that are geared up to deal with this sort of thing. The majority would have had existing pension schemes that would have had the authority to be tweaked in order to comply with the new compliance requirements.

As we have just passed the halfway point of auto-enrolment implementation, it is worth noting that within a shorter period of time, a much higher number of employers are now obligated to do the same thing. And over the next two and a half years, 1.6 million businesses are required to replicate the onerous process, albeit on a smaller scale, with very little or no help at all.

The Pensions Regulator recently issued research showing that almost two-thirds of

employers still don't know the exact date they need to start enrolling their workers. Its message to these small businesses was: 'Start getting your plans in place or you risk a financial penalty.'

Employers who don't comply with the rules face a range of potential financial forfeits. They might be hit with a fixed penalty of £400, and then, if they still don't toe the line, there are penalties of £50 a day for employers with one to four staff, rising to £500 a day for those with five to 49 staff.

What to do

Auto-enrolment legislation is complex and if not implemented correctly, it can cost more to unravel than to implement in the first place.

Some of your potential choices mentioned above may have been your business advisers for many years, whom you trust implicitly. Some are qualified to advise on pensions. Some are not. If you haven't already guessed what I'm trying to get at: shop around. Just because someone has advised you on your tax position or appetite for esoteric investments for 20 years does not mean they know about the 33 mandatories you have to fulfil and submit to the pensions regulator.

With new rules and regulation comes a new undulating field of fees and service level. It is new territory for everyone involved in the process, including the pension schemes themselves, so it is vital that you have a level of comparison.

Give us a call and we will put you in contact with our head of workplace pensions, Leo Davies, who will explain everything. **D**

FOR MORE INFORMATION call Frank Taylor & Associates on **0330 088 1156** or call the regional office on **0161 393 7107**. Alternatively, email team@ft-associates.com or visit www.ft-associates.com.

Practice two – Surrey

Practice location – this practice is based in the ground floor of an office block, in a prominent corner site of an affluent residential area with great local amenities and has strong links with the local medical centre.

Practice type – this is a four-surgery mixed practice established nine years ago and it is being sold to facilitate the retirement of the principal who is to retain the freehold and create a 20-year lease.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £700,000, which is split almost 50:50 between private fees and a NHS-GDS contract. The gross has been generated by co-principals working three and a half days a week, three associates working a combined nine days a week, an associate undertaking implants two sessions per month, an associate undertaking endodontics two days a month, a hygienist therapist working one day a week, four hygienists working a combined four days a week, five full-time nurses, a full-time receptionist and a part-time cleaner.

Price achieved – a price of £1,425,000 was achieved, which was in excess of the asking price.

Agent's comments – this practice generated so much interest that it went to sealed bids and the co-principals found themselves in the great position of being able to choose from a wide range of offers. The new principal is already an experienced practice owner and was ready to sell the existing practice to fuel her ambition and desire to buy a much larger practice where she could continue to grow and develop this practice.

Practice three – North London

Practice location – this practice is situated within a two-storey semi-detached property located in a desirable high street location within a London suburb. The practice is serviced by good public transport links and there is ample street parking.

Practice type – this is a three-surgery mixed income practice, which has been established for over 65 years. The current principal is planning to retire. There is a lease in place with 15 years left to run and the option for the new principal to purchase the freehold at the end of the term. This is an associate run practice.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £300,000 and is generated by a NHS-GDS contract of just over £200,000 and an impressive UDA rate of £32.95. The gross has been generated by two associates who work a combined seven and a half days a week, an associate who works one session a week and a hygienist who works three days a month. In addition there is a full-time practice manager, a part-time receptionist and three nurses who all work part time.

Price achieved – a price of £620,000 was achieved, which was significantly in excess of the asking price.

Agent's comments – with a superb UDA rate this practice generated a serious amount of interest, coupled with the opportunity for the new principal to actually work in the practice, which will significantly improve the already impressive net profits.

Practice four – Essex

Practice location – this practice is based across two floors of an end of terrace property with facilities that include two surgeries and a decontamination room. It is situated in a town centre with residential and shops close by.

Practice type – this is a two-surgery fully NHS practice, which is being sold to facilitate the retirement of the principal who has been at the practice for many years. The turnover has been increasing steadily year on year.

Practice financials – the gross fee income from the management information for the past 12 months is in the region of £333,000 and has been generated by the principal working one day a week, a full-time associate and an associate who works two sessions per week. There is a full-time and part-time nurse and a receptionist who works four days a week.

Price achieved – a price of £758,199 was achieved, which again was seriously in excess of the asking price.

Agent's comments – this practice generated a lot of interest and yet again we saw an impressive UDA rate of £29.87 and, with a principal working only one day a week the incoming principal could already see an opportunity to work full time in the practice and reduce the costs of additional associates – this is yet another reason why we see so many associates looking to buy their own practice.