

# The original and authentic practice value index

## Do you own the freehold of your dental practice?

**Frank Taylor and Associates** explains why capital allowances could be so important for dental practices

If so, you should read this...

Capital allowances are a little known tax relief that are very often under-claimed by dental property owners. Legislated under CAA2001, they allow the owner of a practice to deduct plant and machinery from their business costs in the year, hence reducing their tax liabilities. A specialist survey is required in most cases to accurately identify all the qualifying assets that you can claim. It is true that whilst most accountants will pick up the obvious invoiced costs for a surgery's fit out, chairs, cabinets, autoclaves etc, very few will know how to extract the full value of capital allowances from a clients property. Plant and machinery covers a whole host of items such as carpeting, gas supplies, sanitary ware, security installations, boilers, radiators, electrical wiring etc, and all these contribute to minimising your tax.

When a building is bought, either as a

going concern or to convert to a practice, there will be a whole host of qualifying plant inherent in the premises. Once these have been identified and valued by trained specialists, these can be included in your tax return as an additional business cost against your profits. Since 1878 owners of businesses have not been able to claim the depreciation as a deduction in their tax calculation. Instead, HMRC allows business owners to claim capital allowances. However, these are not given easily, and the exact assets one is claiming an allowance against, has to be clearly identified, valued in accordance with HMRC and VOA guidelines, and recorded in the owners return.

Typically, a property will attract tens of

thousands of pounds as a deduction. These allowances can be claimed by the owner to offset rental income of the premises, if they rent the property out to their business, or simply against the profits of his practice.

### Reducing tax liabilities

However, a business owner should be aware that you can only claim the capital allowances on a property once in the businesses entire life. New rules were introduced by the government in 2012 and 2014 to ensure that the value of the allowances is recorded accurately each time a property changes hands and failure to adhere to these new stricter rules will mean that no party will benefit from this valuable tax relief.

If a property is subsequently developed and perhaps extended to provide additional surgeries, then these development costs will contain a large proportion of plant and machinery also, and therefore an additional claim can be made on these costs. A site visit in each case will be required in order to accurately identify the assets, and to reconcile the assets present to the ledger accounts of the owner. It is often the case that the 'true value' of any plant and machinery is wrapped up in a larger value invoice for 'building work' and often missed.

In summary, capital allowances represent a truly legitimate way for a business owner with property to reduce their tax liabilities. **D**

**IF YOU WOULD LIKE** to find out more, please call Frank Taylor and Associates on 0330 088 11 56.

### PRACTICE ONE - HOME COUNTIES

**Practice location** – this practice is located within a predominantly residential area with excellent transport links. It occupies a large, two-story residential style property.

**Practice type** – this is a four-surgery, fully private practice established over 60 years. The principal wants to sell to focus on other business interests and has offered to stay on post completion on a part-time basis. The principal is to retain the freehold and is creating a 15-year lease.

**Practice gross** – the gross fee income is in the region of £400,000 and has been generated by the principal working two days a week, an associate working three days a week and a hygienist working one day a week. They are supported by a full-time practice manager, two part-time receptionists and two part-time nurses.

**Price achieved** – a price of £425,000 was achieved, which was in line with the asking price.

**Agents comments** – with the principal wanting to stay on post completion it provides an element of comfort to the incoming principal as there will be continuity for the patients and staff whilst the new principal settles in. Interestingly we are seeing more principals wanting to sell and then continue with their clinical work as an associate.

### PRACTICE THREE - MIDLANDS

**Practice location** – this practice is located on the ground floor of a well presented commercial property and has ample car parking available.

**Practice type** – this is a three-surgery, fully private practice, which has been established over 30 years, and owned by the current principal for 20 years. It is being sold to facilitate the retirement of the principal who plans to stay on for at least 12 months. The practice is being sold as leasehold with 15 years remaining on a 20-year lease.

**Practice gross** – the gross fee income is in the region of £650,000 and is 73% private income, and 27% DPAS per item. The income has been generated by the principal working full time, an associate working 1.5 days a week, and three hygienists working a combined full week. They are supported by a full-time receptionist, and two part-time nurses. The associate is paid 45% after labs and materials.

**Price achieved** – a price of £825,000 was achieved, which was the asking price.

**Agents comments** – we are seeing more and more associates looking to buy a fully private practice, and in this case they are delighted the principal is remaining in situ for at least a year as this will provide them and the staff and patients with a high level of comfort. As mentioned previously, an established capitation scheme is always attractive as it is seen as a regular source of income.

### PRACTICE TWO - SOUTH COAST

**Practice location** – this practice is located within a purpose built commercial centre of a town with excellent rail and road links.

**Practice type** – this is a mixed three-surgery practice being sold to facilitate the retirement of the principal. It has been established more than 35 years and it is being sold as leasehold.

**Practice gross** – The gross fee income is in the region of £550,000, of which 44% is private, 24% is Denplan and 32% an NHS-GDS contract with a UDA rate of £20.71. The income has been generated by the principal working full time, two part-time associates who work a combined week, and a hygienist working 25 hours per week. They are supported by a full-time practice manager, four part-time nurses and two part-time receptionists.

**Price achieved** – a price of £650,000 was achieved which was in line with the asking price.

**Agents comments** – we are seeing more principals considering their exit strategy, particularly as it is very much a sellers market despite what is being said in some areas that demand for practices is on the decrease. The idea that if one corporate calls a halt to its acquisition strategy it will affect the market! Reality is one corporate simply reduces the number of potential purchasers by one and in our case that reduces our client base to 4,899 dentists registered looking to buy a practice.

### PRACTICE FOUR - GREATER LONDON

**Practice location** – this practice is located on a busy main road on the ground floor of a residential block of flats. The premises are a virtual freehold with 956 years remaining. There is an option for a buyer to purchase the virtual freehold or a 15-year lease will be created.

**Practice type** – this is a two-surgery mixed practice with a small NHS-GDS contract and has been established for 40 years. The current principal has owned the practice for 20 years and is selling the practice to facilitate his retirement.

**Practice gross** – the gross fee income is 80% private and 20% NHS income with a UDA rate of £24.61 and the income has been generated by the principal working four days a week, two associates working a combined two days a week, and a hygienist working one day a week. They are supported by a part-time practice manager and two part-time nurses. The associate is paid 47% for private and £11.17 per UDA.

**Price achieved** – a price of £575,000 was achieved, which was in excess of the asking price.

**Agents comments** – this practice is located in a very busy high street location and there is a great opportunity to build on the private element of the practice. The incoming principal wants to introduce extended opening hours and has a well thought out marketing plan to support this.

