

The original and authentic

## Practice value index

# Incorporation valuations - the thing of the past?

**Frank Taylor & Associates** says that with the recent changes in tax many principals may be reconsidering the option to incorporate, and as an organisation it always strongly advises to talk to a specialist dental accountant before making such a decision

As an agent we have, over the years, carried out hundreds of incorporation valuations and when undertaking such a valuation we always provide our methodologies to HMRC and are able to evidence our valuations with comparables and market knowledge.

Not everyone is aware that HMRC is able to investigate an incorporation valuation for up to six years and recently one of our clients who had an incorporation valuation in November



2009 had such an investigation.

HMRC challenged the value we attributed, which was just under £1.5

million, and wanted to reduce the value by £600,000. However, following a review of this and by using evidence and the full support of Frank Taylor & Associates, HMRC agreed to retain the original valuation figure. This was a tense and frustrating time for the dentist involved and the relief after all of these years that we were able to support and provide the challenge with our robust evidence.



### Practice one - Essex

**Practice location** - this practice is situated on the ground floor of a two-storey terraced property situated within a mix of residential and local shops with ample free parking close by.

**Practice type** - this is a fully private three-surgery practice established for well over 30 years and has been brought to the market to facilitate the retirement of the principal, who inherited the practice from his father.

**Practice financials** - the gross fee income for the latest 12 month period is shown to be in the region of £280,000 and comprises of purely private income. The gross has been generated from the principal working five days a week and is supported by a hygienist working two days a week. Professionals complementary to the clinical team comprise of three part-time dental nurses who work a total of six days a week, and one receptionist/dental nurse.

**Price achieved** - a price of £305,000 plus freehold was achieved, which was in line with the asking price. Funding for this purchase was secured via FT&A Finance.

**Agents comments** - originally this practice was put to the market as a leasehold as the current principal wanted to retain the freehold and place it in a self-invested personal pension (SIPP). The purchaser wanted to buy the freehold as there was an additional revenue stream available from an upstairs flat. The practice also had one surgery, which was kitted out but not in use and the purchaser can see many opportunities to develop the practice, increase the turnover and more importantly the profit. As in many cases the current principal has agreed to stay on for a period of three months to ensure a smooth hand over to the incoming principal.



### Practice two - Hertfordshire

**Practice location** - the practice occupies the first floor of a purpose built property situated amongst a residential area adjacent to a small shopping precinct. The practice benefits from having a large municipal car park at the practice.

**Practice type** - this is a three-surgery mixed-income practice being sold to facilitate the principals retirement. The premises are leasehold and are occupied under a newly renewed 25-year lease.

**Practice financials** - the gross fee income for the 12 month period is shown to be in the region of £400,000 and comprises of 80% private fee per item income of £279,207, Practice Plan fees of 5% and NHS GDS contract value of 5%. The gross has been generated from the co-principals working four and four and a half days each per week. The practice also has two self-employed hygienists working a combined three days per week. Professionals complementary to the clinical team comprise of four part-time dental nurses and two part-time receptionists.

**Price achieved** - a price of £460,000 was achieved, which was the asking price. The funding for this purchase was arranged by FT&A Finance.

**Agents comments** - this sale was to fulfil the retirement plans of two principals who had worked together for many years, and by selling as one entity rather than two halves we were able to achieve a higher asking price. The practice has many opportunities to be developed and in particular in this geographical region there is a demand for Saturday appointments, which had never been utilised.



### Practice three - West Yorkshire

**Practice location** - this is a two-surgery practice situated within a town centre, which has been established over 21 years and is being sold with the freehold.

**Practice type** - a mixed practice being sold as an asset sale to facilitate retirement.

**Practice financials** - the gross income is said to be in the region of £220,000 with 30% of this being generated by NHS income, 20% by Denplan income and balance from fee per item. The gross income was generated by the principal working four and a half days a week, with a hygienist working 17 hours a week; they are supported by a full-time nurse, a part-time practice manager and a part-time receptionist/dental nurse.

**Price achieved** - a price of £288,775 was achieved, which was in line with the asking price. The funding was secured by using FT&A Finance.

**Agents comments** - this practice was ripe for an associate looking to move into practice ownership. A healthy mix of NHS and a well-recognised capitation scheme provides the comfort of guaranteed income, which can be used to cover bank loan repayments. There is ample opportunity for this practice to be developed and with efficient diary planning both surgeries could be utilised to provide even more profitable outcomes.

**Seek advice from a dental specialist accountant and make sure you fully incorporate**

If you are considering incorporating our advice remains the same, seek advice from a dental specialist accountant and make sure you fully incorporate which means, amongst other areas, updating the website, new contracts for employees and self employed colleagues, registering the new legal entity with the Care Quality Commission (CQC), and ensuring your creditors have also been informed.

We provide the same level of care to all our valuations and pride ourselves on being able to support our evaluations with comparables, so much that when an independent chartered surveyor is instructed to carry out a valuation to support a bank loan application, we have a success rate of at least 94% and discrepancies tend to be linked to freehold values, which are out of our jurisdiction. **D**

**FOR MORE INFORMATION** call Frank Taylor & Associates on 0845 612 3434 or the regional office on 0161 638 0875, email [team@ft-associates.com](mailto:team@ft-associates.com) or visit [www.ft-associates.com](http://www.ft-associates.com).



### Practice four - Middlesex

**Practice location** - this practice is conveniently located in the middle of a mix of residential and commercial properties.

**Practice type** - this is a two-surgery, mixed income practice being sold as a share sale. It is leasehold and there is 26 years left on a 40-year lease and is being sold to facilitate retirement.

**Practice financials** - the gross income is said to be in the region of £520,000 and is generated by 58% of a NHS GDS contract and 42% of fee per item. The gross income was generated by the principal working two days a week and is assisted by three associates working a combined six and a half days a week and a hygienist working one day and one evening per week.

**Price achieved** - a price of £950,000 was achieved, which was in excess of the asking price.

**Agents comments** - with a UDA rate of £28.71 combined with a popular location meant this was a very popular practice. Location is one of the drivers of goodwill and a practice within the M25 corridor is likely to attract a high number of interested parties. For example, we currently have 1,822 dentists registered looking to buy in the Middlesex area, which reinforces the current market status of demand far outstripping supply.