Selling your practice: part one

Has the time finally come to uproot? In the first of two articles, **Priya Kotecha** looks at the tax elements to consider when it comes to selling your practice

If you feel like you've seen one patient too many and it's time to hang up the drill (or indeed, if you are merely indulging yourself in the occasional daydream), then it is recommended to have a good understanding of the tax side of things when you do finally sell your practice.

Firstly, be clear on what you are selling. If you are a sole trader, this will largely consist of three elements: goodwill, fixtures and fittings, and the property. Let's look at each in turn.

Goodwill

Goodwill is a capital asset, so you will have to pay capital gains tax (CGT) on any gain you make. Broadly speaking, the gain is what you sell it for less than what you bought it for (or nil, if it was a squat practice) – less costs associated with selling the goodwill (like legal fees).

The normal rate of capital gains tax for higher rate taxpayers is 28%, but if you are selling your whole business and withdrawing from it, you should be entitled to entrepreneurs' relief (ER), which effectively means a rate of 10% (note there is a lifetime limit on gains on which you can claim ER; this is currently £10m, so should keep you going for a while).

Conditions apply, as with all things, so make sure you seek advice from your specialist dental accountant.

Fixtures and fittings

Although this is a capital asset, it is one that you claim tax relief on under the capital allowances regime (like depreciation). This means that when you sell your fixtures and fittings, you do not have to pay capital gains tax on the gain you make – but rather income tax.

Priya Kotecha ACA DipPFS is a partner and chartered accountant with Mac Kotecha & Company, where she and the senior partner deal exclusively with dentists. They offer accountancy, taxation and payroll services in addition to invaluable advice on practice management, buying/setting up a practice and other dental issues. Contact Priya on 020 8346 0391 or visit the website at www.specialistdentalaccountants.co.uk for more detail.

'The normal rate of capital gains tax for higher rate taxpayers is 28%'

As you know, the rates of income tax are considerably higher than 10%, especially if you are a higher rate taxpayer paying 40% or even 45%! There is one large difference, however: when computing the gain that is made, you do not compare what you sell the equipment for with what you bought it for; instead, you compare what you sell it for with the 'tax written down value' (TWDV). This is basically the accumulated cost after capital allowances over the years.

Over the last few years we have had a generous relief known as annual investment allowance (AIA), which may mean that if you have bought a lot of equipment recently, you may have enjoyed full tax relief already, so the TWDV may be low. This means that whatever you sell it for, chances are that you may make a large 'profit' and end up having to pay tax on it.

Property

You may own the leasehold, in which case, this will be transferred. You would not normally expect to make a gain on this. If you own the freehold, though, you have the option of selling the freehold within three years of ceasing to trade and selling the goodwill – in which case, you should be entitled to ER, as with goodwill.

Alternatively, you could sell it leasehold (by setting up a lease) as a way of subsidising your pensions income with a bit of rental income.

If you do this, remember that when you finally sell the freehold, you will not be entitled to ER, but will end up having to pay CGT at (probably) 28%.

Seeking advice

So what is the best way to split the goodwill and equipment? Should you sell your freehold too, or rent it out? These are questions that are very specific to your circumstances, so you should speak to your specialist dental accountant.

If you own a limited company, things can get a little more interesting. Tune in to the next issue to find out more!