Selling your practice: part two

If you've decided it's time to take flight from your practice, you need to ensure your financial freedom. **Priya Kotecha** explains how to do it properly

If you don't skip to work every morning whistling 'hi ho, hi ho, it's off to work we go', and you look forward to funerals because 'it's a day out of the practice', chances are that you've been toying with the idea of selling your practice now for a while.

In the first part of this article (*Aesthetic Dentistry Today*, November 2014) we talked about the tax consequences of selling your practice when you are a sole trader.

This time, we are going to look at how that differs when you have a limited company and also, what your options are.

When you are a sole trader and you sell your practice, you are ultimately selling three elements: the goodwill, your property and the fixtures and fittings.

When you operate via a limited company, you do not own these assets in the first place – your company does (with the possible exception of the property, which I will come to later).

So, you have a choice:

- Option one – your company sells the goodwill and fixtures and fittings to the buyer
- Option two – you sell your shares in the company to the buyer

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Option one: selling goodwill, fixtures and fittings

In this case, your company makes a capital gain on the sale of the goodwill on which it must pay corporation tax, probably at 20%.

The gain is, broadly speaking, what the company sells it for, less what it bought it for, less costs associated with selling the goodwill (like legal fees).

If the goodwill met conditions for tax-deductible amortisation (a bit like depreciation) then the sale price is compared to the amortised cost and not the original cost. The amortised cost is likely to be lower, which means the gain on which the company will have to pay corporation tax may be higher as the company has already enjoyed tax relief on this amortisation. Unfortunately, you can't have your cake and eat it!

> ***'If you sell your shares in your company [then], conditions permitting, this should qualify for entrepreneurs' relief'***

When it comes to the fixtures and fittings, the company must compare what it is selling the equipment for with the tax written-down value of the equipment (or TWDV). This is the value after capital allowances (which is basically like depreciation).

If the sale price is more than the TWDV, it effectively means that the company has made a profit. What does your company do when it makes a profit? That's right – pay corporation tax!

Of course, if it sells the equipment for less than the tax written-down value, it has made a loss – so it will at least get relief for that.

So your company has sold these assets and has paid its tax on it. It is now a case of you being able to extract that money from the company in the most tax-efficient way. (There are no prizes for guessing that this will probably involve paying more tax.)

Option two: selling your shares in the company

Here, you effectively get shot of the whole company and everything in it – so the vendor buys shares in your company, which in turn owns the assets.

Think of your practice being a chocolate and your company being the wrapper.

Option one is you holding on to the wrapper but selling the chocolate. Option two is you selling the wrapper, which contains the chocolate within it.

So, you sell your shares in your company and, conditions permitting, this should qualify for entrepreneurs' relief (ER).

(For those who did not read the last article – when you personally make a gain on a capital asset (like shares) you normally have to pay capital gains tax at 28% if you are a higher rate tax payer. However, if it meets all the necessary conditions, you can benefit from entrepreneurs relief (ER) and pay only 10% instead.)

Decisions, decisions

So, which option is better? What is a better split between goodwill and equipment when you sell? For both of these questions, you really must speak to your specialist dental accountant as it is very specific to your own circumstances.

Ultimately, you want to try and keep as much of the proceeds after tax, because the question isn't at what age you want to retire – it's at what income.

Happy selling!

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