Practice Financial Management Ltd
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Practice Valuations and Sales | Independent Financial Advice

PFM's Wealth Management and Business Newsletter for dentists

January 2011

Realise a 66% return on your pension contributions through tax relief

Dentists should breathe a sigh of relief. The coalition government has announced that tax relief on pension contributions for higher rate tax payers will continue for the foreseeable future. We recommend that dentists take action to maximise tax relief where possible, to reduce their tax liabilities. Higher rate tax relief enables you to make a pension contribution which is added to by Her Majesty's Revenue & Customs and also allows you to reclaim a further amount through your self-assessment. The table below demonstrates how this works

High rate tax relief with a personal pension

Your contribution:	£10,000
HMRC adds to your fund:	£2,500
The gross contribution:	£12,500
You reclaim through self assessment:	£2,500
Your net contribution:	£7,500

So in summary your net outlay is £7,500 after tax reliefs whilst a £12,500 contribution is added to your fund. Without including investment growth this is an effective return of 66.6%.

As you can see the benefits for those making pension contributions are significant. With likely further changes to the NHS pension scheme dentists should ensure that they have a back-up plan for their retirement. Although a personal pension is not the only way to save for retirement in addition to an NHS pension it is the only way currently to receive tax relief as detailed above.

If you would like to take advantage of PFM's pension eligibility review or make a pension contribution then please complete the reply card and return to us or contact PFM on 01904 670820.

Contact us

tel: 01904 670820 email: info@pfmdental.co.uk
website: www.pfmdental.co.uk

ISA DEADLINE–

PFM's 'fast-track' review and recommendation packs available now!

Don't forget to use up your ISA allowance of £10,200 before April 5 2011.

With buoyant investment markets and investors fed up with low interest rates more investors are expected to take advantage of valuable ISA allowances in the run up to the tax year end. Remember ISA savings are not subject to income or capital gains tax and remain accessible at all times. PFM supply personalised recommendations on how to invest your ISA allowance to ensure you take an appropriate level of investment risk.

For an ISA 'fast-track' review and recommendation pack please contact PFM on 01904 670820 or return the enclosed reply card.

INSIDE THIS ISSUE

FINANCIAL AND BUSINESS REVIEW APPOINTMENTS AVAILABLE NATIONWIDE
visit www.pfmdental.co.uk

Is your practice protected if a business partner dies or becomes seriously ill?

Many dentists don't consider the financial impact on their business and importantly on their financial dependents, if a business partner dies or becomes seriously ill. By implementing simple measures you will protect your financial dependents, yourself and the value of your business.

CASE STUDY: 3 partners, goodwill and equipment valued at a £600,000. Freehold property valued at £300,000. Total value of £900,000. One partner dies, leaving a 1/3 share of the practice and freehold to his surviving spouse. The 2 surviving business partners would like to purchase the deceased partner's share from the surviving spouse.

From the surviving business partners' point of view...

1. They struggle to raise the £300,000 required to purchase the deceased partner's share.
2. They can't find a suitable successor (internal or external) who has the financial means to 'buy into' the partnership.
3. There is a suitable successor but a 'fair value' cannot be agreed with the deceased partner's spouse.
4. The deceased partner's spouse agrees to sell the newly acquired share to an external third party. As there is no partnership agreement in place the surviving business partners are powerless to stop this.
5. The deceased partner had no will in place. Due to probate there is a delay of 12 months before the surviving spouse is able to sell the inherited share. An independent valuation is instructed. As a result of this valuation the surviving spouse expects the surviving business partners to pay more than they feel is fair value.

From the surviving spouse's point of view...

1. The surviving spouse and surviving business partners dispute the value of the practice and can't agree a sale price.
2. The deceased partner had no will and due to probate the sale of the newly acquired share is delayed by 12 months. Unfortunately the surviving spouse is reliant on this capital for income and has to make alternative arrangements.
3. The surviving business partners can't raise the finance required to purchase the deceased's share of the practice. The surviving spouse has no option but to accept a lower price or enter complex negotiations with a third party, incurring legal costs and further delay.

The solution....

1. A life policy written under trust is taken out by each partner as follows:

Life assured	Sum assured	Trust Beneficiaries
Partner A	£300,000	Partner B and C
Partner B	£300,000	Partner A and C
Partner C	£300,000	Partner A and B

On the death of any partner the surviving business partners benefit by a tax free amount of £300,000.

2. A cross-option agreement is signed by all three partners. This means if the surviving partners offer to buy the deceased partner's share the surviving spouse must sell. If the surviving spouse wishes to sell the surviving business partners must buy.
3. The partnership agreement is revised to include reference to the cross option agreement, binding all three business partners to its effect.

Critical illness cover can be added to this arrangement, ensuring that the practice and partners are protected in the event that a partner becomes seriously ill.

PFM offer a review of your partnership protection and can refer you to a solicitor who will offer a fixed fee to update or implement your partnership agreement. Contact PFM on 01904 670820 to discuss your partnership protection needs or return the enclosed reply card and an adviser will contact you.

Q&A

Pensions

Our clients regularly ask us questions on current financial planning issues. This is one we prepared earlier...

Q There seems to have been a lot of changes to pension rules recently. Can you explain what I can pay into my personal pension and how my NHS pension contributions affect the limits?

A There certainly have been a myriad of recent changes to pension legislation. Thankfully most of these will be positive for dentists. In summary, from April 6 2011 there is a new annual contribution limit of £50,000. For higher-rate taxpayers this allows you to contribute £40,000 net as tax relief is added to your contribution. A further £10,000 tax saving can be reclaimed through self assessment, making the total net contribution only £30,000. The new rules also allow you to 'carry forward' unused contributions. So if you haven't made the maximum contributions in 2008/9/10 tax years you can do so after April 6 2011.

You should take care to allow for your NHS pension when assessing the contribution limits. There is a calculation that must be performed to work out your 'deemed' NHS pension contribution. In brief this is dependent on the level of NHS contract performed. PFM has calculated that a dentist with an NHS contract of £215,000 will use approximately half of their annual pension contribution limit.

In reality the new rules will allow most dentists to make additional personal pension contributions and take advantage of tax relief. With concerns in general over the future of public sector pensions (including the NHS scheme), dentists should consider additional pension planning where possible. This is also the case if part of your income is derived from private fees.

Good News -

No More Compulsory Annuity Purchase

Further changes to pension legislation by the coalition government have swept away the need to take a pension annuity at age 75. This rule had remained unchanged for many years and the change is seen as a highly progressive step, making pension saving more attractive. It will especially benefit those who would like to retain their pension fund for future generations or financial dependants and may be in a position where they do not require additional pension income. We urge all dentists to contact PFM to review the effectiveness of their current pensions and to ensure that they make the most of the available tax relief.

The rules also affect dentists who currently take benefits in the form of 'drawdown' income and again those in this situation should review their pension planning options.

There are also changes to the treatment of pension benefits in the event of death which need to be considered as part of your wider financial planning. We suggest that now is a good time to review this in light of the legislative changes which take effect from April 6 2011.

If you are considering taking the benefits from your pension and would like independent advice return the reply card or contact PFM on 01904 670820

Preparing for retirement seminar Leeds

• 14 October 2011 •

BOOKING NOW OPEN

Delegate bookings for PFM's popular preparing for retirement seminar are now being taken. Places are limited so please book early. Full details of the seminar can be viewed at www.pfmdental.co.uk . Please email mandy.wraige@pfmdental.co.uk to book your place or call Mandy on 01904 670820.

What partnership options do you have if you are buying or selling a share of a practice?

Martyn Bradshaw, practice valuation and sales director at Practice Financial Management Ltd (PFM) considers partnership options and the impact on the value of goodwill.

Partnership structures within a dental practice commonly fall into one of two types: expense sharing or true partnership. Some practices adopt a hybrid of the two. Under a true partnership profits are split equally, regardless of the individual partners' fee income, or days worked. The risk of inequalities makes this a potentially flawed agreement and is it therefore unpopular. The expense sharing route, where the principals split either some or all of the expenses, allows for a profit distribution more in line with individual fees produced. A hybrid arrangement may involve the partners taking a percentage of the fees produced as the first layer of income (similar to an associate), with residual profit or loss then split equally.

Goodwill valuations for different partnership structures

A goodwill valuation should take account of the partnership structure. If you are considering expense sharing it is not relevant to simply undertake a valuation on the whole practice and divide by the number of partners. The valuation should be based on the actual share being purchased, which involves an analysis of the purchaser's potential gross fees and share of the remaining associate income. An experienced valuer will combine this analysis with a projected profit and loss account for the purchaser to ensure that the structure is financially viable.

Sole-owners considering the part sale of their practice run the risk of devaluing their retained interest at the point of their final exit. However, a balanced view is called for as the partial sale may produce some advantages in the form of raising capital, sharing managerial and administrative duties and not least the opportunity to continue work with similar rates of pay.

To arrange a valuation of your practice or if you are thinking of selling please contact our practice sales and valuations dept on 01904 670820 or visit www.pfmdental.co.uk

SELLING YOUR PRACTICE – HOW SHOULD IT BE MARKETED?

5 ways PFM can achieve the best for you from your practice sale:

Our experience tells us that to gain a high price for your practice it must be marketed in a professional, clear and informative manner. PFM's experience of marketing practices is tried and tested:

The Prospectus – We will produce a comprehensive brochure of your practice aimed at presenting the practice to your potential buyer in the best possible light. Our brochures include a description of the practice, breakdown of the staff and dentists, financial information and full equipment inventory. Remember that your potential buyer may be new to business ownership and not fully understand practice accounts. PFM's prospectus presents financial information in a way that ensures it is easily understood.

Speaking with potential purchasers - It is important that your marketing agent has an excellent knowledge of your practice when speaking with potential purchasers. This can make the difference between securing your buyer and seeing them offer on an alternative practice. We pride ourselves in dedicating time to talk to potential purchasers – something that dentists marketing their own practice may not have time to do.

Mailing Lists – We have a mailing list for serious purchasers, registered for details of the practices we market. Unlike other agencies we don't charge for this or limit buyers to' a preferential' list. As we act solely for you, we ensure that the practice is marketed as effectively and widely as possible to gain the most amount of interest.

Advertising – We advertise your practice on pfmdental.co.uk which gains a large number of daily hits. PFM advertise in a several dental journals and command regular editorial space. This ensures that we reach a mass audience and keep in regular contact with potential purchasers.

Negotiation - In addition to the marketing, we negotiate your sale with purchasers to ensure all relevant terms are considered and discussed. Our extensive experience allows you to gain the best price and terms. Our expert guidance ensures that you don't make on the spot decisions. Post-sale we work closely with you, the buyer, solicitors and accountants to ensure a smooth and timely completion process.

If you would like to discuss the sale of your practice, please contact Martyn Bradshaw or Paul Newsom on 01904 670820 or return the enclosed reply card.

PFM's Advisers - please see their individual profiles at www.pfmdental.co.uk


David Leaf


John Fearn


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Martyn Bradshaw


Jon Drysdale

The information in this newsletter is based on our understanding of law and HMRC practice as at January 2011 and is subject to change