

INCOME PROTECTION ON INCORPORATION

The introduction of a 50% tax band in 2010/2011 will impact on many healthcare professionals, coupled as it is with a reduction in the personal allowance of £6,475 by £1 for every £2 of additional income above £100,000.

Faced with these daunting potential liabilities, we are currently advising many dentists who are converting their practices to limited companies for a consideration, including goodwill, which is available to be drawn down over a period of time. In that way, the dentist is able to enjoy a very modest income of salary and dividends from the company and to withdraw the loan created by the purchase consideration over a period of time. Although there will be a Capital Gains Tax liability on the sale of goodwill, for most people this is only taxable at the rate of 10%. Over a period of time a considerable tax benefit can be enjoyed.

The incorporation decision is not to be taken lightly and the benefits are not necessarily available to all. One of the pitfalls of this course of action is that practitioners will only have a very modest income in the early years since the withdrawal of funds associated with the purchase consideration is not taxable income. Under such circumstances many dentists will find themselves under-insured since standard income protection policies will only pay up in respect of lost income, not capital.

The process of incorporating your practice is a very complex one, many fundamental decisions need to be made and many processes addressed. It is particularly vital that any changes in your circumstances are discussed first with all your professional advisers. Failure to address the issue of income protection with your IFA and your insurers could be extremely costly in the event of any illness or accident.

Source:

Murray Walne FCA
Director
Macintyre Hudson LLP
Lyndale House
Ervington Court
Harcourt Way
Meridian Business Park
Leicester
LE19 1WL
Murray.walne@mhlip.co.uk

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