STARTING A PRIVATE PRACTICE

Financial stages of a doctor's career

As Shakespeare would have put it: 'A doctor in his time plays many parts'. And as doctors with a private practice move through their careers, their business requirements are very different. **Ian Tongue** outlines the three principal stages involved and suggests key action points to take

DEVELOPING A PLAN for each stage of your career in private practice is vital to ensure that your earnings are maximised over your career. There are three main phases during a private practice career:

- Commencement;
- Practice development;
- Retirement.

1. Commencement

At commencement, most aspects of running a business are new, but it is vital at this stage that the business is set up correctly and starts strong to avoid being left behind and on the back foot later. With planning and advice from the outset you will be able to hit the ground running.

Action points at this stage are:

Develop a presence with GPs and private hospitals

It is essential that people know you exist. Ensure you send circulars to GPs and private hospitals to get your name known. Seminars and talks are a great opportunity for relevant parties to meet with you and get your name known. Availability is a key point for success.

Understand your market and how much you can charge

Consultation fees can vary significantly between specialty and it is important that you understand how much you can charge. In some cases, fees charged are not fully covered by a patient's insurance and therefore it is important to understand payment levels to ensure the patient is aware of any shortfalls.

Develop a marketing and professional website

Developing a strong marketing strategy will spread the word and should pay dividends. In particular, those doctors performing aesthetic work should see good results from a marketing campaign.

In today's technological world, having a professional website is essential. There are also a number of portal sites where your details can be listed bringing together the patient and consultant.

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Engage an accountant, preferably with significant experience in healthcare

The heathcare sector is unique and is different to the majority of businesses a general accountant will deal with on a day-to-day basis.

Engaging an accountant with specialist knowledge should ensure that you have the specialist help and support you need throughout your career.

Set up accounting and administration systems

At first, these can be reasonably basic but, ultimately, things will get more sophisticated as work volume increases.

Spreadsheets are perfectly adequate in the early years but, ultimately, one of the bespoke clinical/accounting packages is likely to be required.

Understand the tax system and budget for tax liability from commencement

It is vital that you understand the tax system and due dates for payment. Depending on your commencement date, it could be as long as 22 months before any tax is due on your private work. Ensure that your accountant explains the tax system in detail to you.

Treat your private practice as a business

Your private practice is a business and must be run as such however large or small. Again, working with your accountant in this area will pay dividends.

2. The practice development years

This is the time to take a deep breath and take stock of personal affairs after what, for consultants, will have no doubt been a busy few years after appointment.

Action points at this stage are:

Consider mix of work being performed

Review your mix of work being performed and develop those sources which can be relied upon up to retirement. Many consultants, for instance, perform less clinical work towards retirement and therefore it may be worth considering medico-legal work, depending on specialty.

Review fees

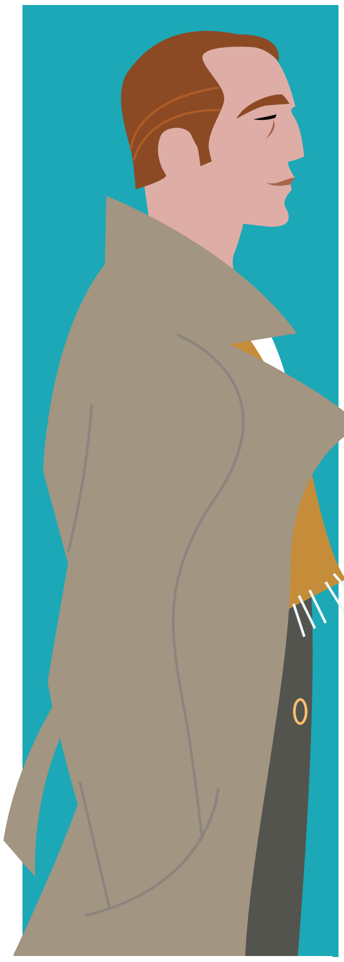
It is important to review fees on an annual basis to ensure that you are not effectively working for less each year when inflation is factored in.

Ensure that your accountant is discussing tax planning opportunities with you. How you structure your business may require review, especially in light of the new 50% tax rate effective from 6 April 2010.

Perhaps this is the time to bring a spouse/civil partner into the business, as, in many cases, they will have an active involvement by now.

Consider protection

As your private earnings grow, it is vital that you review your income and life insurance. In many cases, you will be the main breadwinner and therefore protecting your family's future should the worst happen is vital.



Consider investments

Make your money work for you. At this stage, you want to consider investments or additional pension arrangements. Speak with an independent financial adviser recommended by a colleague or by an accountant.

Strength in numbers

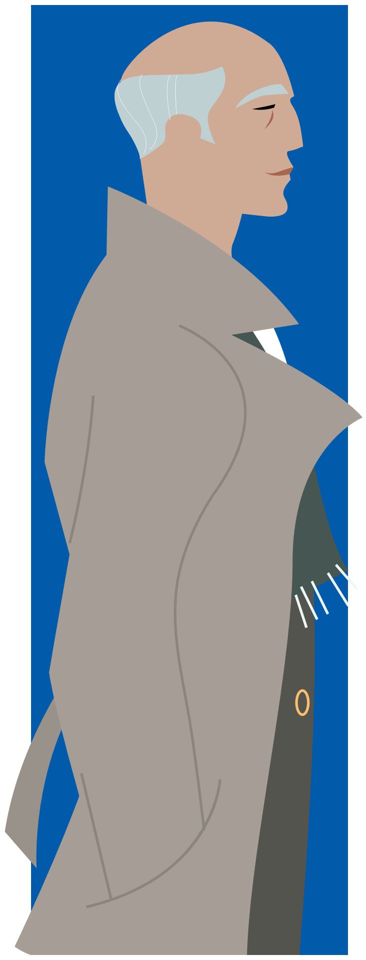
Depending on specialty, you may have been approached by colleagues to form groups or cost-sharing 'chambers'. In many cases, this can be a successful arrangement generating significant extra profit from additional work, cost savings or a combination of both.

When entering these arrangements, you do not necessarily need to give any of your existing private practice away.

3. Retirement

At this stage, you will inevitably be considering winding down having had a successful and busy career.

In the past, it was normally the case that, within one to two years of retirement from the NHS, the private practice had reduced to such a level that it was simply not worth continuing. But with the changes in the patient referral method, this reduction is not experienced to the same degree and, in many instances, the private practice can continue long into retirement.



Action points at this stage are:

Manage mix of work performed

You may be experiencing a reduction in referrals and therefore the development of other income sources earlier in your career should really pay off at this stage.

Dependent on

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specialty, building up a successful medico-legal practice can provide great flexibility, as it is generally less demanding and the associated indemnity fees are lower. Make sure the fees charged are commensurate with your position and experience.

Change of year-end

Many doctors with non-31 March or 5 April year-ends have what is known as 'transitional overlap relief'. This is an amount that is deducted from the final private practice profit upon retirement. However, it can be utilised earlier if there is a decrease in profit in the run-up to or subsequent to retirement. The amount and when to utilise this should be discussed with your accountant.

Expenditure

The run-up to retirement provides an opportunity to take advantage of generous capital allowances on equipment such as computers. Basically, it is the last chance for tax relief on such items. Any add-backs on retirement are minimal when compared to the original claim.

Review investments

Work with your financial adviser to ensure that the wealth built up for retirement is risk-assessed. Generally speaking, lower risk investments are a better bet at this stage to protect your capital.

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Pension

Obtain a valuation of your pension fund to ensure you understand your level of income from this source post-retirement. Also ensure that you have not exceeded what is known as the lifetime allowance. If you have, then there may be a recovery tax charge equivalent to 55% on the excess.

It may be that your accountant or financial adviser has prepared and submitted protection forms or it may be the case that you were ineligible.

If this is an issue, then any tax recovery charge can be extinguished or mitigated by commuting part of the annual NHS Pension for an additional tax-free lump sum. The overall NHS Pension benefit remains unchanged, but the amount used to compare with the lifetime allowance is reduced.

The process of commutation can also provide a good investment route, as the additional lump sum is tax-free up to 25% of the capital value. Further details can be obtained from the NHS Pensions Agency.

Managing and reviewing your private practice is a continual process from commencement. Recognising the needs of the business at each stage of your career will ensure that you maximise your earnings potential.

■ **Don't miss next month's article in this series: 'Tax planning in the run-up to the new 50% tax rate'.**

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