STARTING A PRIVATE PRACTICE

Plan your year ahead

With the new tax year almost upon us, it is often a good time to reflect and plan for the year ahead. **Ian Tongue** shows how

WHETHER YOU are relatively new to private practice, or more established, it can be an invaluable time to consider your current position.

While some will have a financial year-end that is not coterminous with the tax year end of 5 April, the guide below is still useful as you approach the appropriate time.

Tax-saving products

Many tax-saving products provide an allowance per tax year: for example, ISAs. An ISA is a savings product that is free from income and capital gains taxes.

With an ISA, you have an overall limit of £10,680 for the tax year 2011-12 from which a maximum of £5,340 can be in cash with the remainder in stocks and shares. If you have not already done so, topping up your ISA before 5 April is usually a good idea if you have savings.

Pension planning

This is a current hot topic with the new £50,000 annual limit for contributions from 6 April 2011 and lower lifetime allowance from 6 April 2012 of £1.5m. In addition to these changes are the proposals under the 'Hutton report' which are looking to review contribution rates, calculation of pension and retirement age, among others.

This is a complex area, but many may have the opportunity of paying an additional sum into a personal pension before 5 April 2012. Speak with your independent financial adviser and accountant to determine whether this is appropriate to you.

For a more in-depth analysis of April's pensions deadline, see our feature on page 38.

Disposal of assets

If you are disposing of any assets which are subject to capital gains tax and have not used your annual allowance of £10,600 (2011-12), it may be worth selling them before 5 April 2012 to utilise your annual allowance.

Additionally, if you hold assets such as a property and are looking to dispose of the asset in the near future, you may want to consider changing the ownership to include your spouse.

The reason for this is that each taxpayer receives an annual allowance for capital gains tax and the rates payable are different between basic-rate and higher-rate taxpayers at 18% and 28% respectively.

If you are looking into varying your ownership percentages, there are a few pitfalls to avoid and therefore it is vital that you seek advice from your accountant before proceeding.

Buying capital equipment

At present, there is a special allowance which was introduced to encourage capital investment. It is known as the Annual Investment Allowance (AIA) and allows a business to obtain full tax relief on a qualifying asset up front rather than over time under the usual capital allowances system.

Therefore, it represents an acceleration of tax (capital) allowances. For assets purchased up to 5 April 2012, the allowance is £100,000. However, from 6 April 2012, the allowance falls to £25,000.

If you are considering significant capital investment, it may be worth purchasing before 5 April 2012. It should be noted that your financial year-end can affect the amount and timing of the available AIA and you should therefore discuss your circumstances with your accountant.

Trading structure

For those considering a change in trading structure, this may be an ideal time to make the change, particularly if your financial year-end finishes on 31 March or 5 April.

Many consultants could benefit from moving from the self-employed model of trading to that of a limited company or husband-and-wife partnership. This is particularly effective if your spouse is a low earner or is not working.

There are pitfalls to avoid and the savings do vary, so speak with an accountant to discuss your circumstances in more detail.

Accounting systems

With the pressures of running your busy private practice, it can often mean that your accounting records are not as strong as they could be. A new financial year is a great time to start an accounting new system or practice management software package.

HM Revenue and Customs (HMRC) now has new powers to fine businesses where it determines adequate accounting records have not been kept.

There is no clear definition from HMRC on this; however, it is clear that if you maintain limited records and mainly prepare your figures only when the accountant asks, you could land yourself in hot water.

The key requirement in this area is to have records that are complete, accurate and up to date. If you have outgrown simple spreadsheets, consider one of the practice management packages which not only help with accounting but are designed to help run your practice.

Marketing and advertising

A new financial year can be a good opportunity to evaluate costs and service received. In particular, expenses that are incurred to generate or protect income should be reviewed thoroughly.

Depending on your specialty, your advertising spend could be one of the largest expenses you incur. Therefore, it is vital that you review the effectiveness of this spend to ensure that you are obtaining value for money.

If you do not have such systems to review this, make sure you implement them to enable a thorough review next time. When it comes to marketing and advertising, often a fresh approach bears fruit.

Indemnity insurance

Your indemnity cover is reviewed annually and the period to which it runs is not usually coterminous with your financial year-end or the tax year-end.

However, as your premiums are paid based on your estimated income, now is a good time to consider whether your estimate was reasonable.

This can cut both ways, but with consultants in the early years, more often than not, an understatement occurs. Any back-premium levied by your indemnity provider is tax-deductable even though you won't pay it until after your financial year-end.

Other expenses

Reviewing your other expenses is also a good idea to ensure that you are obtaining value for money. Small reductions across many areas can add up to significant savings.

A new tax or financial year can be a great opportunity for making changes. Ask your accountant for recommendations on improvements to your systems and also take the time to evaluate your performance.

■ **Next month: Should I incorporate?**

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