STARTING A PRIVATE PRACTICE

Taking on premises

Taking on premises is a big step for any business, perhaps more so for a consultant or GP engaging in private practice. However, there are many advantages to either buying or renting your own premises if your practice is at the stage where it needs to take that step. Ian Tongue explores some of the important issues to consider

IF PURCHASING the premises, the normal method would be a commercial mortgage arrangement. Given the current climate, I would expect the lenders would require a significant deposit and strong finances supporting the application.

From a tax perspective, the interest element of the mortgage payment should be allowable as a deduction against your private practice income.

Purchasing would make you responsible for all costs and would provide the opportunity for capital growth in the long run, which is often a consideration when reviewing your wealth generation strategy.

Stamp duty is paid on the purchase of premises in excess of £150,000, initially payable at 1% but rising to 4% for premises in excess of £500,000.

Leasing

Leasing is perhaps a more flexible option, but only the landlord will benefit from any capital growth. As you will be a tenant, the full cost of the lease rentals are allowable for tax purposes.

Again, stamp duty is payable, but under leasing this can be more complex if, for example, a lease premium is paid. Your accountant or solicitor will be able to advise you in this area.

Key considerations are:

- Service charges can add a considerable amount to the lease rentals;
- Ensure you are aware of exit costs and responsibilities such as dilapidation costs;
- Timing of rent reviews and break clauses are important;
- Ability to sublet to a third party allows flexibility.

Capital allowances

Whether the premises are purchased or leased, there are going to be substantial additional costs in bringing the premises into use. Tax relief is available on many types of costs, but potentially at differing rates depending on the nature of the expenditure.

For the current tax year ended 5 April 2010, an 'Annual Investment Allowance' is available that provides 100% tax relief on the first £50,000 of expenditure. Previously, the tax relief was 'drip fed' over a number of years.

Any residual expenditure is then classified by expenditure type, with plant and machinery given a further beneficial allowance of 40%, known as a first-year allowance.

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In subsequent years, plant and machinery attracts a 20% allowance based upon the 'tax value' i.e. 20% of what's left. The main other classification is 'integral fixtures' which are given a lower annual relief of 10%, as they are expected to last longer – for example, integral air conditioning.

Depending on your year-end and the continuation of the Annual Investment Allowance, it may be worth deferring expenditure over two tax years. Your accountant will be able to advise you in this area.

VAT

The VAT status of a property depends on whether an 'option to tax' has been made and not whether it is a specific type of premises. For the majority of consultants working privately, they are not VAT-registered and therefore it is important to establish the VAT status from the outset.

If you are buying a property that has 'opted to tax', then VAT will be added to the purchase price, which is likely to add tens of thousands to the price. Likewise, a lease with VAT charged will be more expensive for a non-VAT-registered individual.

Even if you are VAT-registered, you may not be able to recover all of the VAT, depending on what services are being provided.

If a building has opted to tax, this is usually in force for 20 years and transfers between owners.

VAT is a specialist area and it is always advised that an expert is consulted who can consider your individual circumstances and advise accordingly.

Tenants

Attracting a tenant is an excellent way of utilising excess capacity. It is always difficult to establish how much space you will need and, therefore, if a tenant can be found, this can help fund the purchase or lease of larger premises. This would also provide the option to use the space later on, should the business require it.

You would need to draw up a lease agreement and could consider charging an up-front payment, known as a 'lease premium'. Depending on the length of the lease, part of the premium would be subject to capital gains tax, with the remainder subject to income tax, assuming the building is owned personally.

Frequently, a synergy can be found between like businesses and these arrangements can be beneficial from a business development point of view as well as cost sharing.

Expense sharing

There are many costs which can be shared with a tenant, particularly if they are operating a similar business.

These could include:

- Secretarial;
- Reception;
- Heat and light;
- Buildings insurance;
- Certain equipment.

Pension arrangements

Until recently, the changes that occurred with effect from April 2006 made it quite attractive to put commercial properties into a self-invested personal pension (SIPP), as the amount that could be contributed with full tax relief was substantial.

However, the announcement made in the April 2009 Budget in respect of the restriction of pension tax relief for individuals earning greater than £150,000 may affect this.

These measures are yet to be fully implemented – there are now only interim measures in place and therefore you should seek the advice of your accountant or financial adviser in this area.

Purchasing or leasing a building is a big step and many consultants will not want to take on this commitment. However, where there is a need for separate premises, buying or leasing premises can often be the catalyst to taking the business to the next level.

■ **Next issue: a look at investment property**

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CAPITAL GAINS AND INHERITANCE TAX

- **Capital gains tax is payable on any profit resulting from the sale of the commercial property. Each individual has an annual exemption of currently just over £10,000, which would be deducted from any gain.**
- **The balance is taxable at 18% based on current rates at the time of print. If the building is being sold at the cessation or sale of business, a relief known as 'Entrepreneurs Relief' may be available, which effectively reduces the tax rate to 10% for the first £1m of gains. Your accountant will be able to advise you further in this area.**
- **Inheritance tax planning is another important area to consider. As one's personal wealth and estate increases, so does the need to plan for the inevitable.**
- **At present, the inheritance tax threshold for an individual is £325,000, which, for many people, will present issues should they unexpectedly pass away.**
- **It is advisable to discuss your circumstances further with a solicitor and accountant to ensure that, should the worst happen, your loved ones are catered for.**