

STARTING A PRIVATE PRACTICE

What tax to claim back on expenses



Don't be one of the doctors losing money because they are not claiming enough against tax. **Ian Tongue** shows how to maximise expenditure claims

ENSURING THAT you are claiming all tax-allowable expenses is a vital part of running your private practice. With tax rates ever increasing to cope with the country's fiscal 'black hole', losing out on tax relief is even more costly.

There are many expenses that will be incurred as a consultant or GP engaging in private work. These costs will be varied and, in many cases, specific to one's circumstances, and therefore a colleague claiming a particular type of expense does not always mean everyone can.

Medics by nature are largely conservative in their dealings with HM Revenue and Customs. As with all businesses, there are costs which pose no problems from a tax perspective and there are some which attract more attention. Your accountant should be able to guide you based upon an assessment of your attitude to risk of this nature.

“
Medics by nature are largely conservative in their dealings with HM Revenue and Customs
”

What can I claim?

This is an interesting question and one which is asked of accountants regularly. In some cases, the answer is not clear, but other expenses are clearly incurred 'wholly and exclusively' for business purposes.

There are many expenditures which should have no risks attached from a tax perspective, these include the following:

- Room rental;
- Secretarial fees;
- Salary to spouse (provided they are actively involved);
- Indemnity insurance;
- Printing, postage and office stationery;
- Website and advertising costs;
- Professional subscriptions;
- Business telephone costs;

Then there are other costs which – depending on your circumstances – should be treated with caution. These include those listed below:

- Motor and travel;
- Salary to spouse (where limited involvement);
- Use of home;
- Entertaining;
- Clothing.

Care must be taken when claiming for the above to ensure that amounts are not excessive and can be justified under a tax inspector's scrutiny. These costs are explored further in turn below.

Motor and travel

This is a current 'hot topic' and you may have read recently in *Independent Practitioner Today* that a group of consultants in conjunction with another specialist medical accountant are challenging the basis for claiming this type of expenditure at the time of going to press.

This has always been a grey area for consultants due to the variety of circumstances faced. Through the tax inquiry system and ultimately court rulings, there are many examples of professions where detailed guidance is available ranging from milkmen to builders. However, there is no clear accepted guidance relating to medical consultants, which generates the uncertainty over what is actually business mileage.

For those consultants who practise from one private location which is close to their NHS base, it is fair to say that the opportunity to charge business mileage is more limited than a consultant who practises from multiple locations away from their NHS base.

You must consider whether you have a clear place (or base) where private work is performed or whether the business is effectively

“
There is no clear accepted guidance on travel expenses relating to consultants, which generates the uncertainty over what is actually business mileage
”

run from home akin to a locum GP. In my circumstances as a self-employed partner, my trips to the office are not business mileage but my trips to clients are. Everyone's circumstances are different and therefore you should discuss yours with your accountant.

Salary to spouse

This is an effective way of recognising an expense where the spouse is involved in the business. It also provides the opportunity to pay into a personal pension for them as well.

The salary level can be based on a number of factors, but, clearly, the level of remuneration should be commensurate to work performed. If a spouse has no involvement in your practice whatsoever, it is not recommended to pay them a salary.

Use of home as office

Inevitably, a doctor will undertake work at home in connection with their private practice. In some cases this time can be considerable.

A cost can be brought into the accounts to reflect this, either based upon a flat rate per week or a percentage of household bills. The latter poses more problems due to the calculation and potential of creating a business asset within the home which may have Capital Gains Tax implications.

Your accountant will be able to recommend the best approach for your individual circumstances. Doctors seeing patients at home are more likely to use the percentage method, as they will have consulting rooms there.

Entertaining

This is another area attracting interest from the tax inspector. It seems fair and reasonable to include these costs on the basis that entertaining generates future business. However, entertaining is generally not an allowable expense for tax purposes.

Therefore, you should consider how much referral work is gained from these activities. There are certain provisions for staff entertaining such as a Christmas party but this only applies to employees of your business and therefore excludes self-employed individuals such as secretaries.

Clothing

This is another area where a tax legal case exists, although in the context of a lawyer rather than a doctor. If the clothing is not specialist in nature – for example, protective – or is not a recognised uniform, then the expenditure is not allowable.

Now I know what I can claim for, how do I maximise it?

The key aspect to maximising expenditure claims is to ensure that you have adequate accounting and recording systems in place. If expenditure is not recorded, then the tax relief is lost forever. Consider the list below.

- Ask yourself: 'Is my system adequate?'
- Avoid manual systems;
- Spreadsheets work and are perfectly acceptable;
- Bespoke medical software packages can save considerable time;
- Can my accountant recommend improvements?
- Do I keep a mileage log to support my motor and travel claim?
- Can I pay my spouse for the work they do?

As readers are no doubt aware, income has to be declared on an 'earnings basis' rather than cash received basis. This works both ways, so if any costs have been incurred up to your accounting year-end but paid afterwards, make sure you are letting your accountant have details of these costs.

Frequently with newly appointed consultants or those with rapid private practice growth, they underestimate their indemnity insurance premiums. If this is the case, additional costs can be recognised in your accounts for any premium arrears.

With the forthcoming increases to tax rates on the horizon, it is more important than ever to ensure that you are maximising your expenditure claims.

Working with your accountant should ensure that you understand which items can be claimed for and how best to record them to ensure that no tax relief is lost. ■

Next month: What you need to know about property

Ian Tongue is a partner at Sandison Easson & Co, specialist medical chartered accountants

COMING IN NOVEMBER

- **Bad debts?** The problem is growing and some doctors with a private practice are owed hundreds of thousands of pounds. We show how to prevent the problem and get your money back
- **Revalidation latest**
- **Don't give yourself away too cheaply** – an expert's tips to help you negotiate a better deal
- **Employment issues** are catching out increasing numbers of doctors who employ staff. We show the main considerations for independent practitioners and give tips on avoiding the common pitfalls
- **The top reasons why criminal allegations** are made against independent practitioners
- **How to organise an open evening for your practice** (right)
- **Profits Focus** looks at the latest results for orthopaedic surgeons
- **Don't kill yourself investing in pensions** you don't need
- **Learn the lessons from one big surgeons' partnership**
- **Starting up in private practice**
- **Plus all the news consultants and GPs with a private practice need to know** – and much more



Don't miss out on the November issue of *Independent Practitioner Today*. Ring 01752 312140 today to subscribe and guarantee your copy

CATCH UP WITH THE NEWS YOU'VE MISSED

Now subscribers can read back-issues of *Independent Practitioner Today* in full in the archive section of our website



www.independent-practitioner-today.co.uk

CONSULTING ROOM AVAILABLE IN THE HEART OF EXETER

A well-appointed consulting room is available for either sessional rental or sub-lease in Southernhay, the most prestigious street in Exeter. The room is within a conventional medicine-friendly chiropractic clinic. Waiting room and reception facilities are included. Would ideally suit a private GP or specialist wishing to establish themselves in the South-west.



For more information, please call Richard Gubby on 01392 221122 or visit www.cathedralchiropractic.co.uk