

STARTING A PRIVATE PRACTICE

How choosing your tax year-end can save cash

Your accounting year-end does not have to coincide with the end of the tax year. Choosing the best accounting year-end for you is an important consideration when you start a private practice, explains **Ian Tongue**

YOUR ACCOUNTING year-end is the date to which your accounts are prepared each year – and it can be different from the tax year-end of 5 April.

Commonly, consultants opt for a 31 March or 5 April year-end for ease of reference. But, depending on your circumstances, adopting a different year-end may confer a

cash flow advantage to you, so this should be considered.

The 5 April and 31 March are largely interchangeable, as a concession is available to treat these dates the same. Therefore, the remainder of this article assumes that 5 April relates to either date.

What is the benefit of not choosing a 5 April accounting period? The benefit relates to the profits which are disclosed on the tax return each year.

Most consultants experience a period of significant growth in the private practice before it plateaus and therefore the timing of the profit disclosures may be beneficial.

When starting out, irrespective of the accounting year-end adopted, you are taxed initially from the date of commencement up to the 5 April of the first tax year-end that you cross. So if you commenced on 1 September 2009, your first period would run from this date up to 5 April 2010.

If adopting a 5 April year-end, your second period would run from 6 April 2010 up to 5 April 2011 and you would draw up accounts annually to this date thereafter.

If adopting the anniversary of your private practice commencement date, you would choose 31 August in the above example and your second period would be the year ended 31 August 2010. You would then draw up accounts annually to this date thereafter.

Frequently, a 30 April year-end is adopted to increase the timing



difference further. In the above example, this would result in a more complicated series of periods in the earlier years, but would settle down to 30 April from year three onwards.

Taxed twice

With an accounting year-end which does not fall on 5 April (non-coterminous), the periods disclosed overlap in the early years.

This effectively means that the profits are being taxed twice for disclosure purposes, but, with rapidly rising profits, this can be an advantage, as the profits disclosed are lower in these overlap periods. Credit is given for the 'overlap profits' upon cessation of trade by

SHOULD I CHANGE MY YEAR-END?

If you are already trading with an established year-end, care must be taken when changing your year-end, as tax liabilities can be accelerated by this action. However, it may be worth discussing your individual circumstances with your accountant further.

deducting them from the final period's taxable profits.

Conceptually, with profits being taxed twice, it would appear that you are worse off, but that is usually not the case.

Example

Taking the above periods as an example, the first disclosure period from commencement would be the same irrespective of the accounting date adopted.

However, with rising profits, the second profit period representing the year ended 31 August 2010 would indicate a lower profit than rolling this on to 5 April 2011, where increasing private practice growth is experienced.

Therefore the taxable profit disclosed in year two onwards would be lower as a result of this timing difference. While the private practice profits are rising, the taxable profit disclosed should be lower until stabilisation occurs.

If you are expecting rapid private practice growth, it is certainly worth considering adopting a year-end that does not fall on 5 April.

With the introduction of 50% tax, this may be a way of delaying the pain and, depending on the longevity of this new rate, may actually reduce the amount of profits which suffer the higher rate. This could obviously work in reverse if income tax rates were to increase even further!

Practical aspects

From experience, one of the most difficult aspects for non-coterminous year-ends is the inconsistency of timing for requesting information from a client, in particular in the early years.

When adopting a non-5 April year-end, you will be asked to supply your private practice income and expenditure to a different date to the remainder of other aspects of your personal affairs which must continue to use 5 April – such as any salaried earnings and investment income.

In reality, this is just an understanding issue, but many doctors with a private practice struggle with this for many years with some experiencing confusion on an ongoing basis.

It is worth noting that the 'overlap profits' at the start are not adjusted for inflation. Therefore, when these are deducted, their 'value' is less than they are in real terms. However, this needs to be balanced with the cash flow benefit experienced from your year-end choice.

If your private practice is expected to be modest and build slowly, it is unlikely that you will gain any significant advantage having a non-coterminous year-end. However, you should always discuss your options with your accountant.

What if I change trading structure?

Many consultants are changing their trading structure from being sole traders to limited companies or partnerships with their spouse, where appropriate.

With any change of this nature, it is vital that you discuss your individual circumstances in detail with your accountant, as tax liabilities can be accelerated depending on the timing of the structure change. Your accountant will be able to advise you further on your individual circumstances.

Choosing a year-end is an important part of starting in private practice, as it may give you a cash flow advantage.

You do not necessarily need to decide on a year-end right away when you commence, but it is recommended that you discuss your individual circumstances with your accountant as soon as possible.

■ **Next month: Managing how much you extract from the business**

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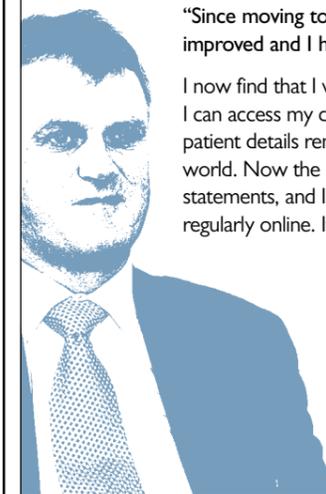
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