STARTING A PRIVATE PRACTICE: EXPENSES

What's tax-allowable?

With the increased tax burden that most consultants have experienced, it is vital that you maximise your tax-deductible expenditure. It sounds simple – but what is actually deductible and which ones carry an element of risk? **Ian Tongue** outlines the more common types of expenses incurred by consultants and highlights the areas of risk

FOR AN EXPENSE to be given tax relief it must be incurred 'wholly and exclusively' for the purposes of trade. Certain expenditure clearly fits under this heading and includes costs such as:

- Professional indemnity cover;
- Most professional subscriptions;
- Room rental;
- Medical supplies;
- Assistants fees;
- Secretarial fees;
- Printing, postage and stationery;
- Wages and salaries of individuals employed in the business (and actively involved);
- Costs of developing a website;
- Marketing and advertising costs;
- Most accountancy fees.

The list is not exhaustive but, clearly, these costs are incurred 'wholly and exclusively' for the purposes of trade and so do not normally face much challenge from HM Revenue and Customs (HMRC).

Often the most significant expense can be your indemnity cover, resulting in the amount disclosed under professional fees on your tax return being high, which, in turn, can increase your risk of an inquiry.

It is always a good idea to provide additional information to HMRC on the tax return providing an analysis of these expenditures, which should significantly reduce your risk of an inquiry in this area.

Which costs are more contentious?

For small businesses, there will always be an overlap of certain costs incurred privately that have an element of business use.

Typical examples of these are:

- Personal mobile phone used partly for business use;
- Home phone and internet;
- Assets used privately and for business.

For the above expenditure, you will need to consider what represents a reasonable proportion to claim for business use. You may wish to discuss this with your accountant, but as long as you are sensible in setting the business use percentages in these areas, you should not have a problem with HMRC.

There are other costs that are more contentious and are picked up more often for an HMRC inquiry and these include:

- Motor and travel for a privately owned vehicle;
- Salary to spouse;
- Use of home;
- Entertaining;
- Clothing.

The above are often challenged by HMRC and an overview of the principles involved is as follows:

Motor and travel

HMRC has been arguing that, for the majority of consultants, there is very limited business use of motor vehicles.

The principles behind this are to challenge the base of operations for the business and whether the private hospitals where work is performed represent temporary places of work.

It has been well publicised in *Independent Practitioner Today* that a tax test case has been passing through the courts, but this has proved a very slow process, perhaps because of the ramifications for all professionals. As you will have seen on the front page in our last edition, a judgment has been made (see feature by Vanessa Sanders starting on page 10 this month – *Ed*).

Our advice to clients is to keep a comprehensive mileage log to support a claim of business use. Our view has been that if a conservative approach is taken to the claim, this could always be amended later on, depending on the outcome of an appeal to this Dr Samadian expenses court case.

A mileage log can take many forms, ranging from a simple list of journeys for a representative period of time to a more sophisticated logging system.

We have made available an App for both Apple and Android users and this can be downloaded from www.medicalaccountants.com.

Salary to spouse

Involving your spouse in the business can be very tax-efficient, particularly if they have limited or no earnings. The key point to ensure here is that the salary is representative of the work and duties performed and is paid at a reasonable rate per hour, based on their knowledge and experience.

It is always a good idea to set out the duties and responsibilities from the outset to ensure that, should HMRC inquire in this area, the position can be defended.

If in doubt, speak with your accountant who will be able to consider your position.

Use of home

Many consultants use their home to perform paperwork, admin, store files and review patient records.

The usual methods to claim involve either a flat rate per week or business percentage use of overall costs. The latter can be particularly contentious and so you should discuss your position in detail with your accountant and establish your claim based on the most appropriate method for your individual circumstances.

Entertaining

Entertaining expenses are generally not a tax-deductible expense within the accounts. There are certain exceptions in relation to those that are employed by you – for example, a staff Christmas party – but this does not extend to those that may work for you on a self-employed basis. If in doubt, ask your accountant whether an expense is tax deductible.

Clothing

I have often heard the assertion that you need to look smart and professional to see patients privately and so the cost of new suits must be tax-deductible. Unfortunately, this is not the case and there is a well established tax case for a lawyer using the same argument for meeting clients and days in court who was unsuccessful.

Unless the clothing is protective in nature or is a uniform, costs of this nature are generally not tax-deductible.

Do I claim when the expenditure is paid?

Income has to be declared on an earnings basis rather than cash basis and a similar principle applies to expenditure.

A cost can be included in your accounts even though it was not paid at your financial year-end. Therefore, when pulling your records together for your accountant, review your costs incurred after your financial year-end to establish whether any of these pertain to the year in question.

If they do, provide the details to your accountant, who should accrue for these within the accounts, resulting in the tax relief being obtained a year earlier.

Is it different for a company?

On the whole, no, for the majority of day-to-day expenditure. But care must be exercised to avoid paying personal expenses through the company; for example, personal tax or expenditure.

Certain costs provided to an employee – including director – may be treated as a tax-deductible expense for the company accounts but attract a tax charge on the individual, which is known as a benefit in kind.

As you will own the company, the overall effect of this approach on disposable income must be considered, as frequently you could actually be worse off in taking a remuneration package such as this.

Ask your accountant to produce calculations on a disposable income basis if you are considering having benefits in kind, particularly for expenses such as school fees and holidays.

Goodwill has been a hot topic for some time and we understand that there has been a significant increase in the number of inquiries opened by HMRC into goodwill valuations. As the goodwill is written off as an expense in the accounts (amortised) and may be tax-deductible, depending on when created, you are 'visible' for an inquiry for some time.

Capital expenditure

Capital expenditure – for example, equipment – is treated differently within the accounts, as it should derive benefits over a period of time rather than being a one-off expense such as room rental.

These types of expenditure attract 'capital allowances' which reduce your taxable profit, but the depreciation charged on these assets in your accounts is added back within the tax computation before they are deducted.

At present, there is a special relief known as an Annual Investment Allowance that effectively provides an acceleration of the capital allowances and therefore tax relief, but the amount of the relief has varied considerably over the last few years.

For the 2012-13 tax year, the amount is £25,000 but this increases to £250,000 for 2013-14. Depending on your year-end, there may a restriction on the amount received and so it is important that you discuss matters with your accountant if you are considering spending a significant sum on fixed assets.

Record-keeping

It is vital that adequate records are maintained and receipts/invoices retained to support any claim for expenditure. It should also be noted that HMRC has new powers to fine businesses that do not keep adequate accounting records.

Ask your accountant whether your systems and record-keeping are adequate.

Maximising your legitimate expenditure claim is an effective way of lowering your tax liability. As shown above, many expenses are clear-cut for tax relief, but there are a number where care must be exercised.

■ **Next month: VAT explained**

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