DENTAL ISSUE WINTER 2023

in the know

All the latest news & updates

Focus on family finance

Setting up a squat practice

Pensions & Junior ISAs:

A wise investment for our children's future?

dodd&co

Chartered Accountants, Business & Financial Advisers

doddaccountants.co.uk

Welcome to our winter edition

During the accounts meetings I have had with my clients this year, a lot of you are looking at your personal financials, with family finance at the front of your minds. In this edition we have taken a look at family finance, some of the topics we have spoken about being: child benefit, repayment of student loans, children's pensions and a lot more.

Whilst the dental market does appear to have slowed down slightly, goodwill values remain high and I've assisted many clients this year with practice purchases AND sales. If you're thinking of either, I'd encourage you to give me a ring to talk through all the options and make sure you're fully informed before making any decisions.

Due to strong demand for dentistry and high goodwill values, I've had more queries than ever about starting out from scratch. Therefore, in this edition we have looked at what you need to consider when opening a squat practice.

In this edition of "meet the team" we're chatting to Rob Oliver. Rob will be a familiar name to many of you as he is a huge part of our dental accounting team.

As always, if you have any questions about any of the articles, please get in touch.

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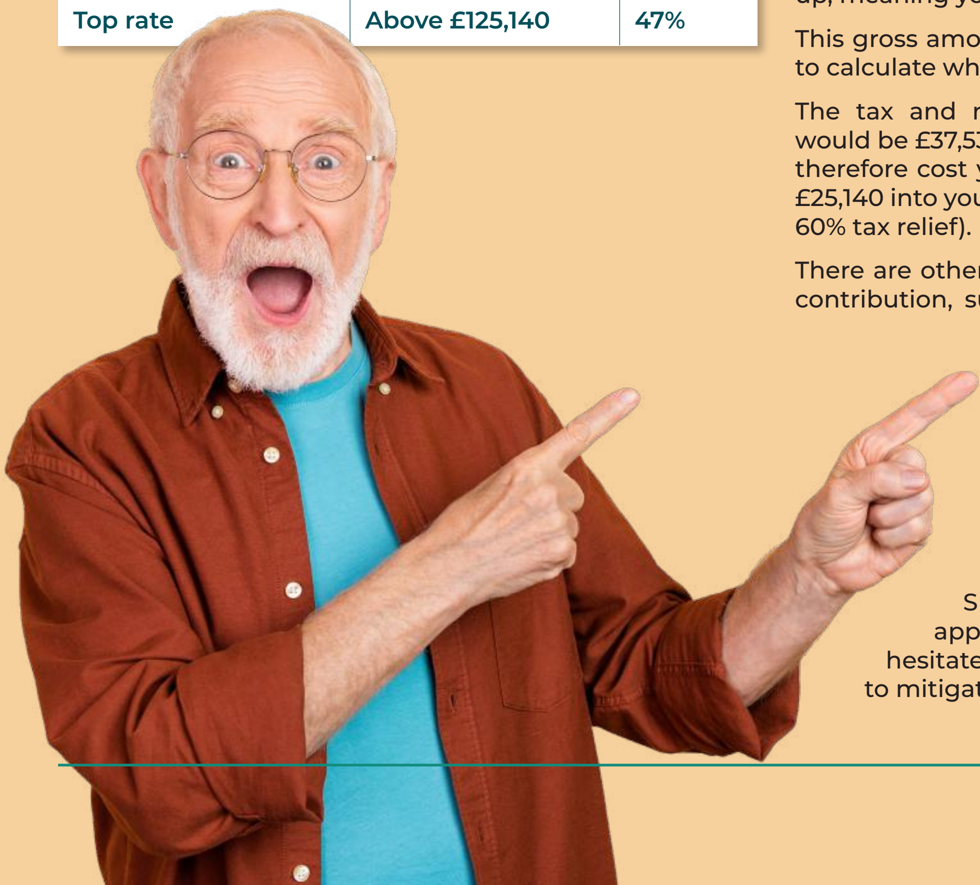
Save tax while planning to retire with pension contributions?

Income tax rates have been stable at the below for quite some time. A six-year freeze in the tax thresholds at a time of wage and income inflation has been described as one of the biggest stealth tax rises in 50 years.

ENGLAND AND THE REST OF THE UK – 2023/2024		
Band	Taxable income	Tax rate
Personal Allowance	Up to £12,570	0%
Basic rate	£12,571 to £50,270	20%
Higher rate	£50,270 to £125,140	40%
Additional rate	Above £125,140	45%
SCOTLAND – 2023/2024		
Starter rate	£12,570 – £14,732	19%
Basic rate	£14,732 £25,688	20%
Intermediate rate	£25,688 – £43,662	21%
Higher rate	£43,662 – £125,140	42%
Top rate	Above £125,140	47%



A particular sting in the tail is for those whose income exceeds £100,000. At that point, the tax-free personal allowance of £12,570 begins to be eroded. For every £2 that is earned over £100,000, £1 of tax-free personal allowance is lost. By the time earnings have hit £125,140, the personal allowance has been reduced to NIL. This can translate to an effective tax rate of 60% between earnings of £100,000 and £125,140.

One option for those anticipating earning over £100,000, to recoup the tax-free allowance, would be to use pension contributions to reduce income back below the £100,000 level. There are other options, such as purchasing equipment and making gift aid contributions, but this article focusses on pension contributions.

A self-employed person (using England/rest of UK tax rates) with taxable profits of £125,140 would pay £47,589 in tax and national insurance (trust us on that, we're accountants!).

If you made a net personal pension contribution of £20,112, the government would gross this up by adding a 20% top up, meaning your pension pot increases by £25,140.

This gross amount is what is deducted from your profits to calculate what figure you pay tax on.

The tax and national insurance due in this situation would be £37,533 giving you a tax saving of £10,056. It has therefore cost you £10,056 (£20,112 minus £10,056) to get £25,140 into your pension pot (i.e. you have had effectively 60% tax relief). Bargain!

There are other considerations before making a pension contribution, such as whether you have enough scope within your annual limits and if it is the right thing for you from a retirement point of view. Should you wish to discuss these our Independent Financial Planners at Dodd Wealthcare would love to assist you. Please note that the planning and arrangement of pension contributions may take time to arrange so it is best to plan well ahead of 5 April.

Should you anticipate your earnings are approaching the £100,000 level, please don't hesitate to get in touch so that potential options to mitigate any tax liability are explored.

Student loans

For anyone just graduating from University, or those of you with children at University, you'll appreciate that financing these studies can be a daunting and expensive time, with many racking up a scary figure on their student loan accounts!

But what happens post graduation and how are these loans repaid?

Generally repayments from student loans trigger from the April after you finish your course. Over the years the goalposts have changed and there are a variety of types of student loans as follows:

Plan 1

These are "old" style student loans for courses that started pre September 2012. The income threshold where repayments start is £22,015 per annum, at a repayment rate of 9%.

These loans are written off after 25 years (or age 65 for pre 2006 loans).

Plan 2

"Newer" style student loans for courses from September 2012 to July 2023. The income threshold where repayments start is £27,925 per annum, at a repayment rate of 9%.

These loans are written off after 30 years.

Plan 3

Scottish student loans, the income threshold where repayments start £27,660 per annum, at a repayment rate 9%.

These loans are written off after 30 years (or earlier of 30 years/ age 65 for pre 2007 loans).

Plan 4

"Brand new" style student loans. These loans started in September 2023 and the income threshold where repayments start is £25,000 per annum.

The repayment rate is 9% and loans will be written off after 40 years.

Postgrad

The income threshold for Postgraduate loans where repayments start is £21,000 per annum at a repayment rate 6%.

These are written off after 30 years.

"Income" for this purpose is effectively your "adjusted net income" so essentially taxable income less pension contributions/ gift aid donations.

If you are an employee you will have this deducted via PAYE and will be shown on your payslips (your end of year P60 will not show these payments). For the self employed this is paid on the 31 January after the end of the tax year under self assessment with your tax. Your HMRC account online generally indicates if you are liable for student loan repayments, if you have any doubt or want to check please speak to your accountant or tax adviser.

Do I get maternity/ paternity allowance?

For self-employed

If you are registered as self-employed then you can claim Maternity Allowance (MA) as long as you meet the qualifying conditions.

To claim MA you need to complete form MA1 available from:

www.gov.uk/government/publications/maternity-allowance-claim-form

MA is paid by the Department of Work and Pensions (DWP) for up to 39 weeks. The weekly amount will vary between £27 to £172.48 per week (April 2023-2024) as determined by your NI record and the amount of Class 2 NI contributions paid.

Currently, the self-employed Dads out there are not entitled to claim Paternity Leave. This may mean that fathers want to start planning early for their Paternity leave and creating a fund to cover their time away from work.

For employees

If you qualify for Statutory Maternity Pay (SMP), this will be paid for up to 39 weeks at the statutory set rate or 90% of average weekly pay, if lower. However, if you do not meet the qualifying conditions, you may instead be able to get MA.

If you are a director, your company can pay you SMP, if you meet the criteria.

For employers

If you are an employer and one of your employees is expecting a baby, they are entitled to take up to 52 weeks of Statutory Maternity Leave (SML). If they are eligible for Statutory Maternity Pay (SMP), this is made up of 39 weeks of paid leave and 13 weeks of unpaid leave. Employers should be aware that employees' employment rights are protected whilst on SML, therefore they continue to accrue holiday entitlement.

Dads may also be entitled to paternity leave and can opt to take either 1 or 2 weeks off work. If eligible, these are paid at the statutory set rate or 90% of their average weekly pay, whichever is lower.

Small employers are entitled to recover 103% of the statutory maternity and paternity pay against their PAYE liability and large employers can recover 92%.

NHS maternity allowance

If you work in an NHS practice and are named on the NHS dental performers list, you may be entitled to NHS maternity/paternity pay if you meet the qualifying conditions. You do not need to be paying in to the NHS Pension to qualify. However, if you are an associate with NHS earnings being paid into your limited company, you will not qualify.

The level of NHS MA will depend on the net pensionable earnings on Compass at the date the payment is due. The weekly payment could be up to £1,660 for dentists and £3,630 for orthodontists and this will be paid to the practice to pass to you (net of NHS Pension contributions if applicable).

Pensions & Junior ISAs: a wise investment for our children's future?

It's very natural for parents and grandparents to focus on saving for their children's immediate needs. Providing for future education, extracurricular activities and home expenses can be overwhelming.

However, an often overlooked and unique way at looking at your child's future, is being able to secure for them a solid financial foundation by way of a pension fund alongside their Junior ISAs (Individual Savings Accounts).

dodd&co Wealthcare

Junior ISAs

Junior ISAs were introduced in the UK in 2011, to provide a tax-efficient way to save money for children. They come in two types: Cash Junior ISAs and Stocks and Shares Junior ISAs. Only parents or legal guardians can open these accounts for children under the age of 18, and the annual contribution limit currently stands at £9,000 per child for the 2023/2024 tax year. However, once opened grandparents can also contribute.

These accounts offer a great opportunity to build a financial nest egg for children. The money saved in Junior ISAs belongs to the child, which they can access when they turn 18. It's a fantastic way to teach children about financial responsibility and help them start their adult life on the right financial footing.

The power of compound interest

One of the key reasons to consider funding pensions for children alongside Junior ISAs is the power of compound interest (where interest is earned on interest). By starting early, you give your child a significant advantage in building wealth over time. Contributions made to a pension fund can grow substantially, thanks to the magic of compounding.

As contributions are made, the initial investment earns interest. Over time, this interest generates more interest, creating a snowball effect that can lead to substantial wealth. By funding a pension for your child at an early age, you're allowing their money to grow significantly over the years.

Tax benefits

Both Junior ISAs and pensions come with tax advantages. Junior ISAs offer tax-free growth, and when the child turns 18, the account is converted into a regular ISA, and they can access the funds without tax implications.

Contributions to a child's pension also receive tax relief from the government, in the same way we are able to claim tax relief on our pension contributions. This means that if you contribute £2,880 per year, it gets grossed up to £3,600 in your child's pension account. Maximum funding for children's pensions in the 2023/2024 tax year is £3,600 (£2,880 net) and you have until 6 April 2024 to use it.

It's essential to remember that the child cannot access the pension funds until they reach the minimum pension age, which is currently 55 although this age will increase to 57 in 2028, so this approach ensures that the funds remain earmarked for their retirement.

Balancing short-term and long-term goals

Funding pensions for children alongside Junior ISAs allows you to find this balance effectively. While the Junior ISA caters to more immediate goals like education or buying a first home, the pension ensures your child's financial security in their retirement years.

By considering both options, you're providing your child with the tools they need to secure a prosperous future while not neglecting their present needs.

Choosing the right investment strategy

When funding pensions for children alongside Junior ISAs, it's crucial to select the right investment strategy. Both options offer a range of investment choices, from cautious to adventurous. The right choice depends on your child's age, your risk tolerance, and the time horizon for each account.

For the pension, a long-term investment strategy can be more aggressive, aiming for higher returns over time. In contrast, the Junior ISA may need to have a more diversified approach to address near-future needs.

For financial planning advice contact Phil Jackson at Dodd Wealthcare phil@doddwealthcare.co.uk or 01768 864466.

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CHILDCARE

30 Hours free childcare

Generally, all 3-4 year olds can get 15 hours per week free childcare.

Some 3-4 year olds can get 30 hours per week free childcare, if both parents work and earn at least the National Minimum Wage for 16 hours per week.

However, you will not qualify for the free 30 hours if either parent has "adjusted net income" (essentially taxable income less pension contributions and less gift aid donations) over £100k.

To claim the 30 hours, log in online at www.gov.uk/apply-30-hours-free-childcare and make your declaration every 3 months. There is no "claw back" if your profit increases and you unexpectedly exceed £100k, you will just need to declare you no longer qualify on your next 3 monthly declaration.

In the 2023 budget it was announced that the 15/30 hours of free childcare was being extended to children as young as 9 months. This is expected to be introduced in stages from April 2024 onwards.

Tax free childcare

Frustrating name, as it has absolutely nothing to do with tax! This can be used to cover childcare costs on any approved childcare, up to your child's 11th birthday.

This replaced the childcare voucher scheme which closed to new applicants in 2018.

With tax free childcare you pay money into an account and it gets topped up by the government. For every £80 you pay in, the government tops up to £100 (so you effectively get a 20% discount). The maximum you can pay in per year is £8,000 (so maximum top up is £2,000).

The entitlement is generally the same as for the 30 hours free childcare, there is the same £100k "adjusted net income" cap and both parents must work 16 hours per week at the National Minimum Wage.

The good news is that, if you qualify, you can claim both the 30 hours childcare and tax-free childcare at the same time (so tax free childcare kicks in after 30 hours are used up).

Child benefit

Child benefit is payable to those responsible for a child who is under 16, or can be extended up to age 20 if they are still in full time education (usually sixth form or college etc, not university).

Only 1 person can claim the child benefit, payable at the rates below:

First child - £24pw = £1,248pa

Additional children - £15.90pw = £827pa

It is usually paid every 4 weeks, not monthly, so equates to 13 payments over a year.

However, if you or your spouse/partner are claiming child benefit and one of you has an “adjusted net income” of £50,000 or more the higher earner will need to repay all or part of the benefit through the tax system.

Your adjusted net income is essentially your taxable income less pension contributions and less gift aid donations. If you and your partner have similar incomes, it could be quite hard to tell which one of you is the higher earner for child benefit purposes!

If you think this affects you, you should tell us/your accountant when completing your tax return. It will be useful if you can provide your children’s names and dates of birth, so that we/they can keep a record of when a claim is likely to end.

If your spouse/partner has a higher income than you and they don’t currently complete a tax return, they will need to register with HMRC to do a tax return each year. They can have the charge included in their tax code if they are employed, but they will need to do a tax return to prove what their income level is.

If you don’t want the hassle of extra tax returns, or additional tax to pay, the person receiving the benefit can elect not to receive it anymore. You probably only want to do this if your income is over £60,000 though, as below that level you would still be entitled to some child benefit.

It’s useful to note, however, that claiming child benefit gets you an automatic NIC credit until your youngest child reaches 12 years old. Therefore, it’s generally better to claim child benefit and then opt out of receiving the payments (if you don’t want hassle of paying the charges), rather than just not claiming in the first place.

So, like the pension annual allowance charge, this is another over-complicated way of charging healthcare professionals more tax! If you or your family need help with child benefit charges or any other tax issues please get in touch.

Setting up a squat practice, how would you do it?

If you're thinking about taking the next step in your career and want to transition from a dental associate to owning and running your own dental practice, how would you do it?

Despite the market slowing and valuations falling slightly, goodwill values remain high (goodwill on practice valuations stand at 126% of turnover in July 2023*). Coupled with the bank interest rate being at the highest rate for over 15 years, it may feel like an unrealistic/ unaffordable option at the moment.

An alternative to this could be to start your own squat practice – something which more dental associates are considering in the current climate.

Setting up your own dental practice from scratch can be time consuming (more than you'd ever believe). It can test the stress levels of the most relaxed person and is not without risk BUT if you are up for the challenge and the extra responsibilities that come with running your own dental practice, the end result can be extremely rewarding.

There is a lot to be said about starting your own squat practice (far too much to include in one article!). Being able to start putting your own stamp on the practice and not inheriting what was there before enables you to create your own unique work culture by hiring your own staff and setting your own values. Being able to recruit your whole team from scratch allows you to hire the staff that YOU want to work with and doesn't run the risk of taking over a workforce with problematic staff. That said, recruitment is very tough at the moment, so you'll need to ensure your offering is competitive.

The downside of starting a squat practice has to be starting with zero patients and no brand identity. This can be a scary proposition, but on the flip side this also means you don't have to pay additional fees (goodwill) to any sellers. You would be generating your own goodwill and building up your own patient base (and other intangible assets) meaning you reap the benefits of your hard work. So, do you fancy the potential benefits and keen on getting started?

The best place to start would be preparing a detailed business plan. Think about what your goals are for the practice and how you are going to achieve them. Set yourself clear objectives to work towards within a certain timeframe. For instance, attracting X number of patients within the first 3 months.

Forecast your cashflow for the first year or so by noting down expected income and budgeted expenditure. This is something you can get help from a specialist dental accountant – hopefully us! Note that your business plan and forecasted cash flow will be a crucial element in helping you obtain finance should you require it.

Location, location, location! It's a big decision to make when setting up a dental practice. When identifying the perfect site, consider factors like local competition, footfall, parking, and public transport links. All these factors will have implications for the number of patients you are able to attract. A swanky new dental practice is nothing without its patients.

It's very unlikely that you will find a purpose-built dental practice in your ideal location, so keep an open mind about converting from one building class to another. The continuing trend of high street shops closing may provide you with the perfect opportunity. If you do go down this route you will need to ensure you follow the relevant planning permissions and building regulations.

Thinking about the equipment you will need to offer your planned services is something to consider at an early stage. Knowing exactly what is needed, and for how much, you can realistically get that equipment for (whether that be a specific dental chair or an X-ray machine you have been eyeing up) will mean you can budget for it.

Buying equipment all at once for a dental practice is clearly an expensive ordeal, so do consider buying pre-loved items to keep the costs down. Even if that's desks or chairs for your office – keeping an eye on local social media selling sites may just save you some pennies!

The chances are that to pay for things like the building (if buying), renovation costs, equipment, and to fund your initial working capital (and don't forget those hidden costs!) you will need to obtain finance. The good news is that plenty of funding options are available for dentists, as it is still a very favourable industry among finance providers from both high-street banks and alternative providers, albeit interest rates are higher than they used to be.

When you run your own business there are so many rules and regulations you need to abide by such as (but not limited to); health & safety, building regulations, employment law, CQC, GDPR, tax law etc. The best advice we can give is to surround yourself with expert advisors – you need a good accountant (hopefully us!), lawyer, bank manager, architect, compliance advisor to ensure you set off on the right tracks and who you can continue to call on for assistance throughout your career.

And finally... imagine opening those doors for the first time, treating your own patients in your own practice. If you want it, GO FOR IT!

*per goodwill statistics provided by National Association of Specialist Dental Accountants and Lawyers (NASDAL).

Meet the team

What did you do before you started at Dodds?

Prior to working specifically in preparing accounts, I was involved in company and personal insolvency. This involved realising assets in order to make distributions to creditors and investigations into company directors.

What's a typical work day like?

I work on a hybrid basis with 3 days at home and 2 office days. Typically, an at home day starts with a 5.30am alarm for a dog walk and trip to the gym. Then work usually starts between 7.30am and 8am checking and replying to emails, before reviewing any files that have been drafted for my manager allocations. After this I draft my own files and deal with any ad hoc queries. Usually there are various client or colleague queries via phone or email throughout the day.

What's the question client's ask you most?

It's often a question of how to treat posting something on their accounting software for a one off item; like a hire purchase, asset purchase or renovation.

What's the best part of your job?

The colleagues at Dodds are all approachable and easy to get along with.

And the worst?

Timesheets (standard answer for all who deal with them)!

Do you have a top tip for clients?

There is no stupid or silly question – and at some point we've probably asked it too! Please don't be afraid to pick up the phone or send an email because we like helping you and it's easier to sort something when it's happened than months down the line.

What's life like outside of work?

Outside of work normally involves either doing or eating something! I love a country walk and I have a two year old border collie to de-energise. I am quite into "Hello Fresh" at the moment, so working my way through preparing their meals in the evening. I play squash at Carlisle Squash club and I'm very grateful to see some hope back at Newcastle Utd after the Mike Ashley years!

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