Incorporation... isn’t that just a ‘trendy business’?

There are many myths surrounding the issue of incorporation. Michael Lansdell looks at some of the biggest ones and gives the business facts.

E ven since the General Dental Council amended the regulations to allow dentists to trade through limited companies in July 2006, (incorporation) the profession has been awash with conflicting advice and opposing opinions. In this article, I will try to dispel some of the specific misconceptions which have grown up around the issue.

It’s often stated that any potential tax savings after incorporation will be cancelled out by increased accountancy fees. True or false?

False. Accountancy costs will rise, as there is more work accounting for a limited company, but this is only a minor element in the overall equation. Before incorporating, the annual net benefits should be weighed against the additional costs. Reputable accountants will usually agree to fix their fees in advance to facilitate an informed decision.

Incorporation allows you to withdraw from the company an amount equal to the value of your practice’s goodwill with an effective tax rate of only 10 per cent (on the first £1 million); if other family members are also shareholders, or work in the practice, further tax benefits accrue, and tax-efficient borrowing becomes possible which many dentists have used to reduce or eliminate their domestic mortgages.

It will be a nightmare when I come to sell

False. The practice can either be sold by the limited company, which you can then wind up or not as you please, or you can sell your shares and the purchaser takes over the limited company.

The first option is less tax-efficient, but the second is normally chosen as it’s usually beneficial for both parties. The new owner is able to immediately take over existing bank accounts and any other business arrangements, as the company is a separate legal entity and continues to exist, and to trade, whoever owns the shares. In fact, many incorporat-