The incorporation process

Michael Lansdell aims to answer the basic questions about incorporation that all dentists operating as sole traders or in a partnership should be asking

Ever since the General Dental Council (GDC) amended the regulations to allow dentists to trade through limited companies from July 2006, the issue has been clouded with speculation and misinformation that has deterred many practitioners from investigating the possibilities.

While it’s true that incorporation will not suit every practice, the decision should at least be made in full knowledge of the facts. Individual practice circumstances vary widely, and objective, professional advice should always be sought before a change in status is contemplated. This article is dedicated to answering the basic questions about incorporation that all dentists operating as sole traders or within a partnership should be asking.

What is incorporation? Incorporation is the process that transfers the ownership of an existing sole trader dental practice or partnership to a limited company (usually newly formed). Incorporation is now an option for practice principals and partners, and also for self-employed associates.

What is a limited company? A limited company is a separate legal entity, with its own legal identity, which is owned by one or more shareholders and managed by one or more directors. In a sole trader or a partnership, both ownership and management vest in the sole trader or partners.

What does ‘limited’ mean? Assuming the company has not traded fraudulently or recklessly, and the directors or partners are not personally liable for the company’s debts, the company is limited to their original investment in the company. This is usually a nominal sum between £1 and £1,000.

Are there any special rules for dental practices? Yes. The GDC requires that a majority of the directors in a dental practice limited company are registered with the GDC, but there is no GDC restriction on who can be a shareholder.

How will I be paid? Directors in a limited company may become employees and be paid a salary as well as receiving both taxable and tax-free benefits. Taxable benefits could include private medical insurance, a company car, and shareholder benefits (within certain limits) include child care vouchers and pension contributions.

Shareholders in a limited company receive dividends, which represent their share of some or all of the company’s net profit after Corporation Tax has been paid.

How does the limited company work? Because it is a separate legal entity, the company has its own bank account, assets and liabilities, employs staff in its own name and enters into contracts in its own name.

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Of course, this is only a brief summary of the incorporation process and cannot take into account individual practice differences. As we stated at the outset, a limited company may not be the ideal trading vehicle for everybody, and the value of professional advice cannot be overstated, but for those who do choose this route, the mechanics of conversion are straightforward. In later articles we shall be assessing the potential benefits.

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Dental Tribune United Kingdom Edition - April 26-May 2, 2010

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