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Considering incorporating your Dental Practice?

The opportunities for changing the way you own and manage your dental practice arises out of the Dentists Act 1984 Amendment Order 2005. This Order effectively abolished the prohibition on corporate bodies carrying on the business of dentistry. Further, as long as a Dental practice has a majority of “directors” who are either Dentists or Dental Care Professionals registered with General Dental Council (“GDC”) non-dentists can now own and be involved in the management of Dental Practices.

The traditional forms of ownership of Dental Practices have been through a sole proprietorship or a partnership. This is now going through significant change particularly because those who are not registered Dental Practitioners or Dental Care Professionals, can own a dental practice through a “body corporate” i.e. a company as long as a majority of the directors are registered with the GDC. Both new Dental businesses and the much more common form of owner managed practices, currently operating through one of the traditional structures, will now wish to opt one of the business structure that provides the benefit of **Limited Liability** for the business activities of the practice.

Limited liability fixes business owners liability, usually to a fixed sum at the date the business is incorporated, most commonly the value of a person's initial investment in a company or partnership, with limited liability. The Owners of the business are not personally liable for the debts of the business as long as they operate the business lawfully. A dental practitioner will in most cases remain personally liable to a patient for negligent treatment though.

There are two main choices of in the UK are LLP's and Companies limited by Shares.

LLP or LTD what's the difference?



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Types of Corporate Body

LLP

Limited Liability Partnerships (LLPs) are becoming a highly popular business structure for professionals who would otherwise conduct their business through a partnership. An LLP should not be confused though with a limited partnership. Limited partnerships have been in operation since 1890 and continue to be appropriate in special circumstances. The key feature of an LLP is that the “members” (i.e. the Partners) liability to third parties is limited but has other additional advantages over a Partnership. An LLP’s key features are:

- ♥ It is a separate legal entity but the profits belong to the members
- ♥ It is taxed as a partnership. The individual members pay tax on their share of the LLP’s profits
- ♥ It has the internal flexibility of a partnership i.e., members can be admitted, rewarded, incentivised and excluded without any change or interruption in the legal ownership of the practice
- ♥ The members’ agreement is private and confidential to the members
- ♥ It prepares and files abbreviated accounts at like a company
- ♥ It can grant banks and other suppliers a mortgage over its book debts and future income and is therefore attractive to lenders who might otherwise want the Partners to be personally responsible for loans



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Types of Corporate Body

Limited Company

Limited companies have been around for 150 years but until relatively recently have not been used for professional practice. For Dentists that has now changed. A Company is a separate legal person created by signing a memorandum of association and registration it at Companies House. Its profits, losses, assets and liabilities are its own. The company is owned by its member(s) (the shareholder(s)) and run by the director (or directors) whose assets are protected by **Limited Liability** from loss if the business should fail. Because a company has a life of its own the business can continue to trade despite the resignation or death of any directors or shareholders. A Limited Company's key features are;

- ♥ It is a separate legal entity but unlike an LLP may have a single member so it can be utilised by a sole practitioner
- ♥ It pays Corporation Tax (In most Dental Practices this will be at lower rate than personal Income Tax) on its profits and can employ the working dentists for a salary or pay a small salary and pay dividends out of profits to its shareholders
- ♥ Its owners and manager are separate. The owners do not need to be dentists as long as a majority of the directors are dentists. Giving shares to others can be a way of remaining finance, expanding the Practice or even giving capital to relatives to potentially reduce Inheritance Tax and Capital Gains
- ♥ Annual accounts have to be filed at Companies House but for most practices these accounts, that can be accessed by the public, will be brief and not contain too much private information
- ♥ The Companies Memorandum and Articles of Association are public documents but shareholders' and directors' agreements can remain private



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WHATS IN A NAME?

If an LLP's or Limited Company's name is to include the word dentist, dentistry or dental this will require approval through Companies House via the GDC. All LLPs and limited companies, must register with the GDC within three months of the incorporation, subject the GDC having finished compiling its register. (This is expected to be completed by the 1st August 2007). Anyone setting up a corporate dentistry practice after the date the list comes into existence must supply the GDC with information within three months. Thereafter an annual declaration must be made. Failure to keep information correctly up to date can lead to a fine of up to £5,000.

WHAT STEPS DO I NEED TO TAKE TRANSFER MY PRACTICE?

While Legal and Tax Advice does needs to be taken about the tax effect of transfer to a Company or LLP this should not be an expensive process compared to the benefits.

Whichever type of Limited Liability vehicle is chosen the basics you will need are;

A Practice Transfer Agreement

A Practice Owners Agreement (If there is more than one owner)

A Novation Agreement to ensure that third parties like finance companies, equipment suppliers etc change your personal liability to limited liability

An Assignment or Transfer of your practice premises. It may also be necessary to register this transfer at the Land Registry.

Law firms like ours already have pre prepared agreements that you can utilise as a starting point for your practice transfer. This can keep the cost down and speed up the process. Once you have received these agreements from us you may feel that you can deal with much of the process yourselves. Alternatively, you can ask us to deal with the majority of the work allowing you to minimise interruption to practice duties while the transfer goes through. We are normally happy to do the work for fixed fee once we know clearly what will be involved in your transfer.

For more information about incorporating a Dental Practice or buying or selling a Dental Practice call Richard Howard on **0800 093 4212** or e-mail **richard.howard@richardhoward.co.uk**