

Do Your Finances Need a Health Check?

Many doctors and dentists find it challenging to keep their finances in order. In an exclusive article for *The Physician*, ClearSky Accounting offers advice on ensuring your finances receive a clean bill of health.

MORE than ever, physicians are under pressure to maximise the amount of time spent treating patients. Healthcare practitioners across Britain are attempting to balance providing a vital public service with managing teams of support staff and performing other administrative tasks. Throw the latest government-led reorganisation of healthcare services into the equation, and managing a day-to-day routine has become even more complex. Ask any physician what is top of their wish list, and the answer will invariably come back: more time.

In this busy environment, it's perhaps unsurprising that many medical professionals struggle to find the time to keep on top of their own finances. Bookkeeping and tax returns play second fiddle to patient appointments – and understandably so. Unfortunately, it's a fact of life that for the physician of 2012, there simply aren't enough hours in the day. Paperwork tends to be one of those jobs that is forever being put off until tomorrow, with the inevitable result that it never gets done.

That's where your accountant comes in. Or at least that's where they should come in. Whether you're a consultant, locum, dental practitioner, or run your own practice, an effective accountant will ensure you operate compliantly and tax-efficiently, providing the support you need to optimise your finances. Your accountant's *raison d'être* should be to take the hassle out of handling your financial affairs, making your life as easy as possible and leaving you free to concentrate on delivering first-class patient care. After all, that's the reason you entered the profession.

Too many accountants, however, fail to offer the proactive advice that is crucial to protecting your financial interests. Some lack specialist knowledge and experience of the healthcare sector. Others don't offer the accessibility and flexibility that your busy schedule requires. The truth is that the accountancy sector has moved on in leaps and bounds in recent years, in terms of both service levels and technology. Physicians, who are naturally focused on their core duties, may well be unaware of these advancements. Taking the time to gain an understanding of the various options on offer could ultimately result in more money in your bank account and more time spent treating patients.

Choosing an Accountant

- **Accessibility**

Professionals working in medicine and dentistry are among the busiest people in the country. Many juggle routine NHS commitments with private work, and all are pressed for time. The vast majority are unable to take time out of their working day to go through their

books. A good accountancy firm will understand this and amend its opening hours accordingly, making its practitioners available on evenings and weekends. Just as patients want access to out-of-hours services and the option of home visits, dentists and doctors are increasingly demanding this of their accountant.

- **Specialist Experience**

As a medical professional, you have unique tax and accounting needs. Lots of accountancy firms will claim to be able to become familiar with your needs, but not all of them will have direct experience in what is a niche and highly complex sector. Before enlisting the services of an accountant, ask for examples of other doctors and/or dentists they have worked with.

- **Online Facilities**

Online portals that enable medical professionals to upload accounting information when it suits them, and complete all their monthly admin quickly and painlessly, are growing in popularity. Such systems mean those working in medicine and dentistry can update their accounts before work, between appointments, or from the comfort of their home on evenings and weekends. Those with a smartphone or tablet can access such portals while out and about.

- **The Human Touch**

Online portals are all well and good, but you need to be able to build a rapport with your accountant if you're going to rely on them as a trusted advisor. Forward-thinking firms will give you access to a dedicated, qualified personal accountant so you'll always be in regular contact with someone who has a complete understanding of your situation, and is ready to go the extra mile. You can't afford to waste time on the phone to an anonymous call centre, so don't put up with it.

- **Transparency**

Some accountancy firms will surprise you with hidden costs. Be clear on how you will be charged and make sure that when you seek alternative quotes, you're comparing apples with apples. Some of the fastest-growing accountancy firms offer fixed monthly fees and don't ask their clients to commit to binding agreements. This means there are no hidden charges and no nasty surprises at the end of the month. As part of a drive to help you and your practice, other firms are also offering initial financial reviews free of charge.

- **Breadth of Expertise**

While a book-keeper can keep on top of your basic accountancy needs, it's much better to work with someone who can offer a more rounded financial service. Access to a dedicated wealth management

team allows physicians to explore the ways in which their money can be made to work harder.

What Should Be My Primary Concerns?

Self-assessment Tax Returns

In our experience, many healthcare professionals lack the time – and sometimes the inclination – to file their annual self-assessment tax returns. One hospital consultant, who combined NHS and private work, told us recently that it was simply more financially advantageous for him to forget about his tax return and instead spend all his available time treating patients – despite the risk of a fine.

Perhaps alive to this indifference among physicians and other high earners, HM Revenue & Customs (HMRC) recently increased the maximum financial penalty from £100 to £1200. Under the new rules, anyone who fails to get a tax return in on time faces a fixed £100 penalty even if there was no tax to pay. Those who continue to fail to act are hit with a £900 fine after three months and a six-month penalty of £300, or 5% of the outstanding tax, whichever is greater. Those who fail to act before a year has passed face an additional fine of 5% of what they owe, or another £300.

On top of these penalties are extra charges for not paying the tax on time. A month after the deadline, the fine is 5% of the outstanding bill, after six months an additional 5% is added and after 12 months another 5%.

The early signs are that the higher penalties are having the desired effect. HMRC announced in August that the number of outstanding returns was down almost 50% on 2011's figure, and represented just 5.9% of self-assessment taxpayers, compared with 10.7% last year. HMRC's director general for personal tax, Stephen Banyard, said at the time: "We want the returns, not the penalties. This year, half a million more people have filed their return – which means we are issuing 44% fewer penalties. But, despite several reminders, nearly 6% of people have not sent their 2010/11 tax returns to us and they'll be getting a penalty."

As well as financial penalties, failure to file a tax return on time can result in a tax investigation by HMRC. This has the potential to damage your reputation, and will also require considerable time and input from your accountant to address HMRC's concerns. If your accountant doesn't operate a flat fixed-fee structure, the extra work they are required to do will obviously mean increased costs for you. On the issue of HMRC compliance, physicians are reminded that they are required to keep hold of their tax records for six years. Many medical professionals that we work with don't realise that failure to do so can result in a fine of up to £3000.

Keeping Track of your Incomings and Outgoings

If the thought of having to manage all of your receipts, bank statements and other papers fills you with dread, then you're not alone. In order to make your life as easy as possible, your accountant's book-keeping services should be made available both online and via post. If you opt for the postal service option, you should be able to send your receipts in an envelope every month and let your accountant take care of the rest. We recommend carrying out book-keeping services on a monthly as

opposed to an annual basis.

A high-quality online service will allow you to take a photo or scan a copy of your receipts and email them to a dedicated personal accountant. Those who prefer to conduct their business electronically should also be able to rely on their accountant's secure online portal to enter sales invoices, purchase invoices and bank statement details.



Sole Trader, Limited Company or Partnership?

Your accountant should offer advice on which business structure is the most suitable and tax-efficient for you, and talk you through the benefits and drawbacks of each option. A limited company is the most popular choice for medical professionals, as it limits liability and offers the opportunity for profits to be re-invested. If you operate as a limited company, your accountant should offer you the option of using their office as your registered business address – allowing them to receive all relevant paperwork directly and therefore process it more quickly.

However, more and more medical professionals are entering into limited liability partnerships (LLPs). Under this structure, profits are shared among members and it is these individuals – rather than the LLP – that pay income tax on profits. Unlike limited companies, LLPs don't have to pay corporation tax. An LLP is similar to a normal partnership but its members benefit from reduced personal responsibility. While this offers more security, it also comes with added complications.

For example, it's important that each member of the partnership registers as self-employed with HMRC. This means each of you will need to include details of any profits on your individual-self assessment tax returns each year. Self-employed partners are also responsible for paying their own NI contributions. Consulting a financial advisor in the early stages can help ensure you meet all the necessary requirements and are fully up to speed with the legal requirements of operating as an LLP.

Before going down the LLP route, there are certain requirements that physicians should be aware of. Some examples include:

- **Filing in a Partnership Tax Return**
This includes a partnership statement, showing how profits or losses have been divided among the partners.
- **Appointing a 'Nominated Member'**
The assigned person should fill in the partnership tax return and send it to HMRC. He or she should also make sure that all members of the partnership are given copies of this statement to help them complete their own personal tax returns. While the nominated member is responsible for the partnership tax return, all members are jointly liable for any penalties that result from it being submitted late or incorrectly.
- **Display your LLP's Name**
The partnership's name, place of registration, registered number and registered office address should be displayed clearly outside your surgery or practice and on letters, receipts and invoices. Along with your VAT number and an email address, these details should also feature on your website if you have one.
- **Keep Companies House Informed**
Submit an annual return every year so your records are kept up to date. You must also make sure you let Companies House know of any changes to partner membership and/or registered company details.



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