

# Cautionary tales

Advice from professionals is always worthwhile as these examples prove.



● The stand-out candidate said he was looking for a new challenge but pre-employment checks revealed he had been dismissed from his previous job for fraud and he could have posed a threat to the practice finances.

**R**ecent cases from AISMA accountants prove that specialist legal and accountancy advice always pays its way.

## **£23k loss over PMS list size adjustment avoided**

Our client, a PMS contractor, queried the base figure used for calculating their list size adjustment. The Local Area Team agreed to an amendment and sent through a spreadsheet for agreement by our client that showed revised list size figures and a balance of around £3k. Before signing off the

figures, our client asked us to check the calculations. We discovered errors in the LTA's calculations and the balance due to our client was eventually agreed to be £26k.

## **Drawings projections saved £50k a year**

We were recently appointed to act for a partnership that had previously used an accountant with no experience of working with medical practices. The partners asked for our advice on the level of drawings, as they had no confidence as to whether the current

level was sustainable. We prepared cash-flow forecasts that not only allowed the level of drawings to be estimated but also led to the partners deciding that they could not afford to replace a salaried GP who had just left. This saved the practice around £50k per year.

## **Proper partnership agreement saved the day**

One of our GP practice clients had a 'back of an envelope' partnership agreement for many years. At our instigation they instructed a

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specialist solicitor to draft a 'proper' agreement. Unlike the previous informal agreement the new document included clauses on how to deal with a partner who had been suspended. Although this was something they never expected to happen it did, subsequently, and the agreement enabled the partners to cope with the problems with much less argument and thus cost than would otherwise have been the case.

#### **Tax fears when property taken out of partnership**

The partners at a GP practice client instructed a non-specialist solicitor to redraft their partnership agreement. In doing so the solicitor undertook some 'tidying' and drafted documents to take the property out of the partnership and move it to a separate Limited

Company. The new entity sat outside the partnership accounts so that rental income could be taxed at the lower 20 per cent Corporation Tax rate rather than the partners' marginal 40 per cent personal tax rate. As specialist medical accountants we were able to point out that this could result in a multitude of negative tax implications, including but not limited to Capital Gains on sale (Entrepreneurs Relief) and possible Inheritance Tax consequences. The agreement was quickly re-drafted.

#### **'I can't pay my tax bill!'**

A GP's tax bill doubled year-on-year and she was unable to fund the January payment having fallen behind with payments due from the previous year. HMRC began sending threatening letters. Clearly insolvency proceedings would be devastating for a GP in practice.

We organised a 'time to pay' agreement with HMRC and set a strict drawings policy that enabled the GP to 'save up' for future tax bills. HMRC agreed to the plan, the GP is now back on course with her drawings plan and is still a partner at the same practice.

#### **And finally.....**

A practice client placed an advertisement to replace the retiring practice manager. The stand-out candidate was a former RAF officer looking for a new challenge after a six month post-retirement break. Thorough pre-employment checks revealed he hadn't retired, but had been dismissed from the Armed Services for fraud. The six-month holiday had been courtesy of Her Majesty's Prison Service. The practice was sensible in applying the same level of pre-employment checks for staff as it did for clinicians. Failure to do so in this case could have resulted in a new employee posing a real threat to the practice's finances.

\*Contributions from members of the Association of Independent Specialist Medical Accountants including Baker Tilly, Dodd & Co, Forshaws, Honey Barrett and MHA MacIntyre Hudson Maidstone. ■

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