

# How to fund payouts to retiring GPs

Accountant Luke Bennett sets out how to manage the funding due to a GP partner coming up for retirement



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Perhaps the most useful advice to give practice managers who are worried about how the money due to a retiring GP should be funded is to be prepared.

Each practice should have a succession plan setting out estimated retirement dates, so that plenty of notice is given of when partners are likely to retire.

Ensure you have an up-to-date partnership deed setting out how much notice a partner needs to give of retirement, and setting out the time period within which their capital must be paid. There may be different time periods for property capital and working capital. The partnership deed should also set out whether the retiring partner will be paid interest between the retirement date and settlement date, and/or whether the retiring partner will continue to be entitled to their share of the notional rent from the property. There may also be restrictions in the partnership deed preventing a partner retiring within a short period after a previous retirement.

It will usually be necessary to have any property assets revalued when a partner retires. The partnership deed will need to be clear whether the properties are to be valued

on the assumption that they continue to be used as a GP surgery, or on an alternative use basis. This is a very difficult area and ideally needs to be agreed before a retirement is imminent, so that a decision can be made based on what is best for the partnership as a whole, rather than being unduly swayed by the vested interest of individual partners.

## Keep the payment to a minimum

It is good practice for the partners' current account balances to be equalised each year after approval of the annual accounts. This avoids the situation where one partner may be building up funds in the practice, which then creates a bigger problem when that partner comes to retire. Make sure sufficient provision has been made for pension contributions that may be payable by the practice after the retirement date. If the partnership pays the tax on behalf of the partners, ensure money is held back for any tax that the practice will be paying on behalf of the retired partner. Also consider whether there may be clawbacks of seniority that need to be provided for. It's easier to deduct the money from the payment to the retiring partner, than have to ask for it back at a later date.

## Where will the money come from?

Short of finding a 'magic money tree', the money to pay a retiring partner will need to come from a combination of:

- Partners (existing or new)
- External lender (usually a bank).

## Partners

Historically, a retiring partner was replaced by an incoming partner, and in this situation the

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capital due to the retiring partner was funded by the incoming partner. If your practice is fortunate enough to have found a replacement partner this should still work well. However, given the shortage of GPs seeking partnership, there is no guarantee of a new partner being found to introduce funds.

If the existing partners are going to have to introduce additional capital, it may be possible for this to be done by deducting the amount required from the year end settlement due to the partners. This feels relatively painless, as it means partners do not have to find cash from their own resources; they just do not receive as large a settlement as would otherwise be the case.

### Bank

If the partners are unwilling or unable to invest further capital, an external lender will need to be approached. Banks continue to see the GP sector as low risk and are keen to lend. You might just ask them to lend the money you need to pay the former partner or it might be an opportunity for a broader review of the finance needs of the practice. Many practices are worried that having to ask new partners for a large capital investment deters them from joining. If the practice can increase its bank borrowing, this will reduce the amount that a new partner needs to invest.

The new partner is buying in to the same value of partnership assets. It just seems less daunting to take on a share of larger partnership borrowing with lower personal funds, compared with a share of lower partnership borrowing and higher personal funds.

### Timing

Even where a replacement partner is being appointed, consider the timing of when the retiring partner is due to receive their capital and when the new partner will have to introduce their capital.

The retiring partner may be due their capital within three months of retirement, but the new partner may only have to introduce capital at the end of a probationary period which could be longer. In these circumstances you should discuss with your bank whether an increased overdraft facility or a temporary loan is required.

### Summary

- Ensure the practice has sufficient time to plan for future payouts.
- Get the balance right between capital invested by partners and bank borrowing
- Hold back sufficient funds to allow for pension, tax and other contingencies
- Arrange for any temporary gaps in funding to be covered. **PM**