

STARTING A PRIVATE PRACTICE

Raising cash you need

Getting a loan is not so easy these days. **Martin Murray** shows how loans' availability is affecting consultants' domestic and private practice lives – and suggests solutions

THE LAST few months have seen dramatic changes to the way banks and other financial institutions provide loans and other types of finance. Gone are the days when loans were quickly and easily acquired.

The majority of consultants will, at some point, require borrowings for their homes, possibly holiday homes and buy-to-lets, cars, equipment and some investments. The amount and availability of finance will depend on a number of factors.

Home

The home is the biggest asset to be acquired by most consultants in their lifetime. For consultants just starting in private practice the availability of a large loan based on future projected profits of the private practice has become much harder to acquire.

An accountant can be invaluable in ensuring that the relevant accountant certificate, required by most banks and building societies and normally prepared in support of self-employed earnings, also highlights future income.

This is important, as the first three to four years for many new consultants exhibit steep rises in their private practice earnings.

Make sure your accountant is fully briefed as to what level of borrowings you hope for. Often the first time a consultant's accountant is aware of a loan application is when the request for the accountant certificate arrives in the post or is faxed by the bank.

It is also important to discuss with your accountant the potential effect of certain tax claims that may adversely affect the



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amount you can borrow. This is particularly relevant if a large amount of money is spent taking advantage of the new Annual Investment Allowance of up to £50,000.

It will have the effect of reducing profits even though it has been invested in the private practice and could potentially reduce the amount that can be borrowed by between £250,000 to £300,000.

This should be sorted out between the accountant and the bank, but it does no harm to remind the accountant of any large investment into the private practice.

The above also applies to established consultants who may wish to extend or increase their mortgages.

The equity in the home can assist in acquiring holiday homes

and buy-to-lets. In the vast majority of cases banks and building societies will still lend up to and between 70 to 80% of the deemed market value of the home. The additional borrowings can form the deposit or capital for the holiday home or buy-to-let.

The downturn in the market may be taken advantage of by some consultants, as they are shielded from any downturn in the economy. Unfortunately, some specialties are heavily dependent on self-payers.

Business loans – use of the home

Many consultants are unaware that the equity in the home, if needed, can be used to provide capital for the private practice, say for the purchase of equipment.

The taxman is only interested in the purpose of the loan and

ignores the fact that it may be secured on your house. In these expensive days of obtaining finance this can provide a relatively cheap source of borrowing.

The same also applies to some extent in acquiring a holiday home or buy-to-let.

Business loan – use of balance sheet

The financial accounts produced by the accountant should not only have a profit and loss account – which is income less expenses – but also a balance sheet. This gives details of assets and liabilities of the private practice.

For example, outstanding fees would be debtors and are an asset, whereas unpaid bills would be liabilities and included in the accounts under the heading of creditors. For the vast majority of consultants, when a balance sheet

is produced, the value of the assets exceeds the liabilities.

This excess can be used to the advantage of a consultant should, say, he or she need a certain type of loan which normally would not be entitled to tax relief.

Basically, the consultant withdraws capital from his or her private practice and replenishes it with a business loan which is treated as capital introduced and is eligible for tax relief.

This should be discussed in detail with your accountant as to whether or not it is available to you and also if it would provide any benefit.

Cars

The downturn in the economy should see some very competitive deals coming on the market for cars, particularly high-value vehicles. The value of certain expensive cars on the second-hand market have seen large dips as



The new Annual Investment Allowance coupled with competitive finance can prove to be pretty lucrative for certain consultants



they have become victim to the downturn and increased fuel costs.

Most dealers will offer you finance. Ignoring any 0% finance deals that may be on offer, you generally find the finance deals offered by car dealers can still be beaten by subsidiaries of the high street banks specialising in such forms of finance. Always check out the annual percentage rate, APR, as it gives as far as possible the true cost of borrowing.

Equipment

Fortunately, most consultants do not need to invest in large amounts of equipment. However, should the need arise, then most providers of large equipment will provide very competitive finance packages. The new Annual Investment Allowance coupled with competitive finance can prove to be pretty lucrative for certain consultants.

Investments

In some cases, certain consultants will borrow money to make investments for which tax relief is either available on the investment itself and on the interest on the loan. Before entering into such arrangements, it is advisable to discuss matters with your accountant, since – in some circumstances – these investments may be subject to scrutiny by HM Revenue and Customs.

The vast majority of consultants will see no difference to their treatment in respect of obtaining loans. But, for new consultants purchasing a new home, the ease to which funds could be accessed in the past is much reduced and assistance will, in many cases, have to be sought from the accountant. ■

Martin Murray is a partner at Sandison Easson & Co, specialist medical chartered accountants

READER PROMOTION

Peace of mind with the stock market

Following the dramatic falls in the world's stock markets earlier this year, there are those who believe that the worse may now be behind us and that now could thus be a good time to buy, writes **Richard McEwen**.

Generally speaking, it makes more sense to invest when the markets are still low, in the expectation that recovery is, hopefully, not too far away. Clearly, only time will tell whether or not now is the right time to buy into the market.

Fortunately for anyone facing this dilemma, a potential solution is available in the shape of so-called 'capital-protected' investments. As the name suggests, such products offer lump-sum investors stock market exposure while at the same time providing full capital protection against further falls in the stock market.

Although precise details vary from one product to another, typically they involve investing capital for a fixed term of, say, five or six years. Then, at the end of this period, the investment return is calculated in accordance with the performance of the underlying stock market index, usually the FTSE 100 index. Should the index have fallen, the original capital is usually protected and will therefore be returned in full.

Not surprisingly, this type of investment has always proved popular with cautious investors, but the current climate means that they are now finding favour with more adventurous and experienced investors too.

The very nature of capital-protected products means that they have fairly limited shelf lives, with tranches typically being available for six to eight weeks at a time. As with most financial products, there are often quite significant variations in the terms of one product to

another. So it is important to obtain information from someone who has access to the whole market, as – frankly – some do not represent good value for money.

To obtain more information on what we consider to be the most competitive and attractive capital-protected products currently available, just let us have the following information by post, phone, fax or email.

To: Independent Practitioner Insurance and Financial Services, 147 Connaught Avenue, Frinton on Sea, Essex, CO13 9RA

Please send me more details on your capital-protected lump-sum investments

Name:

Home address:

Post code: Phone No:

Male/Female: Smoker/non-smoker:

Date of birth: Occupation/appointment:

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HELPLINE PHONE: 01255 682252 FAX: 01255 677756
EMAIL: info@ip-ifs.co.uk