Know the system

For most dental hygienists, their first taste of self employment will be when they become an associate in a practice and, as a result, this article will concentrate on matters relevant to associates rather than principals. While associate contracts will almost always provide for self-employed status, this need not be the case and so it is important to check this point.

Registration with HMRC

Once you become self employed, your first action should be to notify the HM Revenue & Customs (HMRC). Registration is straightforward and can be done over the phone (0845 9154515), online or by post. You will need to have your National Insurance number to hand.

At the latest, registration should be done by 5 October, following the end of the tax year (which runs from 6 April to 5 April) in which you start in business. So, if you start on 1 January 2017, you need to register by 5 October 2017.

Once you have registered as self-employed, you will fall into the self-assessment tax system and be required to complete a tax return each year. This will normally be issued in April and requires information on your income and gains for the year to 5 April just ended. If you are preparing your own return, you can complete a paper return and must do this by 30 September following the tax year-end if you want HMRC to calculate the tax for you. If you complete your return online, you will have until 31 January following the tax year-end to file your return.

Payment of income tax

Income tax is payable in respect of the profits of each tax year in three instalments on 31 January during the tax year and 31 July and 31 January following the tax year. The first two instatements are based on your income tax bill in the previous year. The Income tax used for these purposes excludes amounts collected under PAYE and collected at source on savings are therefore, as a new associate, you are unlikely to have any tax to pay for the first two instalments. The third instalment is a mopping up payment of any additional tax to meet the actual tax liability for the year.

As a new associate, you could have up to 22 months between commencement and paying your first tax. It can be tempting to spend what you earn with the intention of saving for the tax later. This is a dangerous strategy as the first tax bill will be substantial: it will be the total tax on your first years profit, plus a additional 50% as the first instalment on your second year's profit. Assuming continued profit growth, each January will create further elevated tax bills. It is therefore vital that you budget carefully for your forthcoming tax bills from the outset. The best way of doing this is to open a separate building society account and transfer a proportion of your income to that account each month. In order to delay the payment of accountancy fees, it is tempting to delay the preparation of your accounts and tax return until the last minute, Unfortunately, this may be false economy because you will have little advance notice of the liabilities. Also, some firms now charge higher rate for work done in the 'made rush' months of December and January.

Clearly, not everyone starts in businesses on 6 April and so your first period may be for something less than a year. This will of course mean a smaller first tax bill, but will increase the bill one year later. While it is often simplest to have any accounting period that matches the tax year, it is not essential: you can have any year-end that you wish.

Payments of National Insurance

For the date of commencement of your self-employment, you will be required to pay to forms of National Insurance contributions. The first is Class 2 at a fixed rate of £2.80 per week, which will normally be collected by direct debit. The second is Class 4, which is based on the level of your profits. On any profits in the band £8,060-£42,385 you will pay contributions of 9%. On any additional profits, you will pay contributions of 2%. These contributions are effectively treated as an additional tax liability and are collected in the same way as described above for income tax. The amount that you set aside for tax therefore also need to take account of the Class 4 National Insurance contributions that will be payable.

Accounting records

As an associate, your accounts are likely to be pretty straightforward with relatively few invoices and bills. Nevertheless, some organisation of your affairs will pay dividends either through making your job easier, or through making it quicker (and hence cheaper) for your accountant to prepare your accounts and tax return.
Some useful tips include:

- It makes life easier to have a separate business bank account
- Give each invoice that you issue a number or reference that forms a continuous sequence
- Keep a file of these invoices in number order and when each one is paid write on it the date that it was paid and that paying in reference(if you pay in several amounts at once)
- Pay as receipts into the business bank account
- For bills that you receive, again number them sequentially, file them in order and note on them how and when you paid them (cheque, credit card, cash etc)
- Where possible, pay your bills from your business bank account
- Annotate your business bank statement so that each item can be traced back the source documentation. This is useful in the event of an HMRC enquiry at a later date as you will be able to clearly demonstrate that all income has been included in your accounts
- Don't pay any private bills from your business bank account. Instead make a monthly transfer of your drawings from your business account to your private account (plus one to your tax savings account).

  You may wish to keep much of his information on your computer. While you could purchase an accounting package, simple spreadsheets are likely to be sufficient

Deductible expenses

Expenses are only deductible if they are business expense: in other words if you have actually spent the money for the purposes of your trade. The very nature being an associate (i.e. no premises or staff) means that you will have relatively few expenses. The main expenses are likely to be:

- Professional subscriptions
- Magazines and books related to dentistry

- Paper, postage and other office consumables
- Accountancy fees
- Use of your car
- Courses
- Laundry and work clothes
- Use of your home as an office

It is normally the last of these items that create the biggest problems and so these will be considered in greater depth.

Use of your car

A deduction is only allowed in respect of costs which relate to your business. In order to protect you in the event of a HMRC enquiry it is advisable to maintain a mileage log of business journeys. For these purposes, your journey from home to the surgery does not represent a business journey. For most associates, business mileage may be limited to: home visits to patients, travel between surgeries (where a practice has several surgeries), travel to courses and visits to the lab. Supposing that the business mileage represents 10% of the total mileage, then a deduction can be claimed 10% of the running costs of your car (insurance, road tax, servicing and repairs, fuel and interest on any loan to purchase the car). In addition, a form of relief for the depreciation of your car known as ‘capital allowances’ is also available. It is generally acceptable to claim a fixed rate deduction of 45p per mile which is the same rate as is used by employees.

Courses

A deduction is generally allowed for the cost of courses. HMRC may challenge the deduction where the course provides you with new skills as opposed to maintaining existing skills. In practice, this is unlikely to be a problem for typical short courses and conferences. A deduction will also be allowed for related travel and accommodation costs unless there is some other purpose for the trip or you were accompanied by your spouse (in which case any costs relating to them must be disallowed).

Laundry and work clothes

A deduction will be allowed for dental-specific clothing such as white jackets, but not any normal items such as trousers, shorts and ties. As dental clothing needs to be washed on a regular basis, it is normal to claim a deduction for an estimate of the additional laundry costs for these items (unless cleaned externally in which case the actual expense would obviously be claimed).

Use of home as office

It is likely that you will have some work that you need to do at home, such as paperwork or technical reading. As a result, it is normal to claim a deduction for the use of a part of your home as an office. In the same way as for the use of your car, an apportionment of costs is required based on the actual business use. Typically, this will take the form of X% of the time of one room out of Y rooms in the house. The proportion can then be applied to your heat and power bills and mortgage interest. For an associate, it is unlikely that the resulting figure will be substantial and HMRC scrutiny can be expected of any large claims.

Tax planning
With the substantial increases in income tax rates in the UK such that earnings in the band £100,000- £112,950 are taxed at an effective rate of 60% and earnings over £150,000 are taxed at 50%, there is an increased incentive to undertake tax planning. As a means of mitigating tax and national insurance liabilities, it increasingly common for dentists to operate their practices through limited companies, particularly where they have no-working spouses who may be brought in as shareholders The Savings can be significant, even for associates earnings less than £100,000 per annum.

Summary of key actions

- As soon as you become self-employed, ensure that you register with the HMRC
- Open a business bank account
- Make a monthly transfer to a separate interest bearing account to provide the fund for your future tax bills
- Try to maintain your accounts on regular basis
- Get your accounts and tax return prepared as early as possible to give the greatest notice of forthcoming tax liabilities
- Discuss tax planning with your accountant to mitigate liabilities. This should be done in advance of earning income you want to shelter: migrating liabilities once they arise will be difficult or impossible.

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