

Dental Associates

What you need to know about becoming self employed...



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A large number of newly qualified dentists will finish their dental foundation training and find positions as associates. The majority of them will be starting out in self employment.

Below is a number of questions we are regularly asked when coming into contact with newly qualified dentists venturing into the world of self employment.

Q. Do I need to tell H M Revenue & Customs (HMRC) when I start as an associate?

If this is your first self employment, you will need to complete form CWF1. This registers you as self employed and enables you to pay your self employed Class 2 National Insurance contributions. These contributions are payable at the rate of £3.05 per week (for 2021/22) and are payable along with your January tax payment each year (see below).

If you delay registering, you may have to pay a penalty.

Q. When should I appoint an accountant?

If you appoint an accountant immediately when you become self employed they will be able to assist you with any relevant forms and outline what information they will require and when your tax will be due. Most accountants won't charge you for signing up with them and even if you don't need them until the first tax return is due, you will be on their records so they will chase you and you won't miss any deadlines.

Q. What records do I need to keep?

Most associates will receive monthly schedules detailing the earnings from the practice and the deductions such as lab bills and superannuation. Your accountant will need copies of all of these together with invoices to back up any business expenditure. Other information needed for your tax return will include details of other income received such as EDS sessions, employment income, rental income, interest received and dividends received. Details of any pension contributions and any gift aid donations made should also be entered on your tax return.

Q. What business expenditure can I claim?

H M Revenue and Customs will allow you to claim any expenditure which is wholly and exclusively for your business. Examples include any equipment you buy for the surgery such as loupes, professional indemnity insurance, General Dental Council subscriptions.

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Q. Can I claim motor expenses?

Business motor expenses do not include travel to and from your usual place of work. Therefore if you only work in one practice you must not claim any costs relating to that journey or parking. Travel to courses, labs, call outs, visits to the accountant and visits to the bank manager, will be allowable. Motor expenses can be claimed either as a % of total expenditure or at 45 pence a mile depending on your turnover. Your accountant will be able to assist in which method is correct for you.

Q. How long do I need to keep my records for?

We would advise you to keep records for at least six years.

Q. What do I actually pay tax on?

In simple terms your accounting profits are made up of your income minus your business expenses. Tax is paid on taxable profits however these do vary from your accounting profits. This is because once an accounting policy is adopted it must remain in place. The tax treatment however differs year on year depending on the current tax legislation.

Q. When is my tax return and tax liability due?

Tax returns are made up to 5 April each year and are due for submission by the following January. If you have just become self employed your first tax return will be made up to 5 April 2022 and your first tax bill will be due on 31 January 2023. The sooner after the 5 April you get your information to your accountants the sooner they will be able to notify you of the liability due, giving you more time to plan.

Q. What rates of tax do I pay?

Personal tax is paid in bands at the following rates:

UK (excluding Scotland) (2021/22)

		£
Basic rate	20%	12,570 - 50,270
Higher rate	40%	50,271 - 150,000
Additional rate	45%	Above 150,000

Scottish tax payers (2021/22)

		£
Starter rate	19%	12,570 - 14,667
Scottish basic rate	20%	14,668 - 25,296
Intermediate rate	21%	25,297 - 43,662
Higher rate	41%	43,663 - 150,000
Top rate	46%	Above 150,000

If you earn between £100,000 and £125,000 your personal allowance (£12,570 tax free income) is tapered away, meaning income in this band is taxed at an effective rate of 60%.

In addition to your tax you must pay class 4 national insurance. National insurance is also paid in bands, at the following rates:

On profits £9,568 - £50,270	9%
On profits above £50,270	2%

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Q. Is it true I have to pay lots of tax in my first year?

Yes. This is because in addition to your tax liability you must also make "payments on account" for the following tax year. These payments are estimated using half of your tax liability for each payment and they are paid on 31 January and 31 July, each year.

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Example:

If your total tax and Class 4 National Insurance liability for 2021/22 was £20,000, you would pay:

2021/22 tax due 31 January 2022	£20,000
First payment on account 2022/23	£10,000
Total due 31 January 2023	£30,000
Second payment on account 2022/23 due 31 July 2023	£10,000

That's £40,000 of tax payments in the first year you are due to pay tax!

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Thereafter, once you are into the payments on account system, assuming your income remains at a similar level year on year, then your tax payments will even out too.

Q. Should I tell my accountant if my circumstances change?

Yes. You should notify them immediately as they will be able to forewarn you of the impact on your tax liability. For example if you reduce your hours and are therefore earning less your accountant can apply to reduce your payments on account.

Q. Can I trade as a limited company?

Yes you can but that is a whole different issue! There is a number of factors to consider when incorporating your business and just because your friend has done it does not mean it is the correct route for you. Another good reason for appointing an accountant straight away is that they will be able to advise you on the best structure for your business.

Q. Should I appoint a specialist dental accountant?

Yes, non-specialist accountants are competent at producing accounts and tax returns, however dentists do not only have to adhere to the tax legislation, but also the GDC and the terms of their NHS contracts. NHS dentists also pay into the superannuation scheme which is a scheme unique to the medical and dental profession. By appointing a specialist you will not only have peace of mind that your accounts and tax returns are taken care of but that you can also seek their advice on any other issues within the industry.

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