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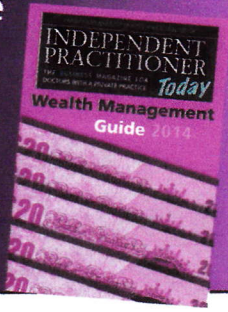

In this issue

Bid to keep Ltd status for doctors

ON A HIGH: Orthopaedic surgeon Mr Peter Brownson, extreme sports lover, celebrated his 50th birthday in style when he went for a sky dive and persuaded three colleagues at Spire Liverpool Hospital's Bone & Joint Centre to leap with him from 15,000ft for a 'bonding experience' at Black Knights Parachute Centre near Lancaster. Luckily, the surgical expertise of John Davidson, Andy Taylor and Matthew Smith was not required on the day

By Robin Stride

Consultants' advisers are negotiating with HM Revenue and Customs (HMRC) over a tax disagreement which threatens specialists' businesses with a potential 'financial and legal nightmare'.

Tax inspectors operating the Government's new anti-avoidance policy believe independent practitioners are reaping tax advantages by incorporating their businesses and, additionally, selling goodwill.

HMRC is convinced that a professional is unable to incorporate their business activity via a limited company, a vehicle used by many professionals to offer their services.

But around 2,500 consultants in private practice currently use this trading vehicle, which accountants argue they are allowed to do under the corporation taxes acts.

HMRC believes these consultants are now paying lower rates of tax at 20%, the current rate of corporation tax on a company.

But accountants say it appears HMRC has forgotten that personal rates on investment income returns remain very high at 37.5% and any consultant shareholder withdrawing funds as profits will pay these rates because they are likely to be additional-rate taxpayers with taxable income over £150,000 a year.

Medical accountants are currently locked in talks with HMRC to address the apparent anomalies between current tax officials' views and what statute and their own guidance appears to allow.

Tax law specialist and barrister Michael Ripley told a workshop for advisers involved that, in his opinion, professional services can be offered through the incorporation route and existing businesses with goodwill can be transferred to a limited company.

Specialist medical accountant Vanessa Sanders said: 'If any doctors or other professionals who have incorporated were forced to revert to sole trader status, they would be thrown into a financial and legal nightmare.'

Ltd companies are traditionally used to allow profits to be reinvested for future growth, highs and lows of business to be evened out over several years and risks of indemnity claims to be constrained.

Consultants selling goodwill – estimated to be 30% of those who have incorporated – would need to revise their tax returns and make large reclaims of capital gains taxes paid stretching back to 2010.

Accountants estimate the loss to HMRC on an average goodwill transfer value of £100,000 would amount to about £7.5m in repayments.

Mrs Sanders – whose firm, Stanbridge Associates, arranged the workshop to explore the knowledge and experiences of other advisers – spoke of the reasons for incorporating some consultant practices, in particular the need to move forward for the changing marketplace of private practice.

She said she felt HMRC was not yet aware of medical specialists' needs to be able to offer their services using the protection offered by the limited company as a trading vehicle. But she hoped talks would help both sides.

Accountants at the meeting at London's Royal Society of Medicine were surveyed by *Independent Practitioner Today* and all were buoyant that they would be able to successfully address both the tax and commercial issues raised by HMRC.

Twenty firms agreed to set up a new working party to strengthen their negotiating arm with HMRC on tax matters affecting doctors and to agree standards in accounting for consultants.

Successive governments have encouraged people to set up companies and have reduced corporation tax rates from 52% in 1978 to 20% in 2014. But personal tax rates paid on profit distributions have continued to rise.

LESSONS IN SETTING UP A PRIVATE CLINIC

Route map to uncovering business booty

Plenty of pitfalls can await the unwary when they try to set up their own private business. Entrepreneur Karen Espley gives some valuable lessons as she sets out her experience of navigating the ups and downs of trying to form a medical company

I WAS WALKING up a storm-strewn path to enjoy a solitary hot-springs bath in the back end of a New Zealand tropical forest – not a spot I would normally expect to get a business opportunity.

But that's where I was, on a six-month sabbatical, when I received an email from an old friend and work colleague saying he'd had a brilliant idea and wanted me to join him as his business partner to get it up and running.

It was a very simple idea: the NHS and private sector are increasingly reluctant to treat a particular condition, so there seemed to be a great opportunity to set up a chain of affordable clinics offering walk-in, walk-out local anaesthetic surgery.

So I cut the next leg of the trip to Australia to six weeks and then hightailed it back to the UK.

While the idea was simple, the execution proved to be somewhat more challenging.

There's the straightforward stuff – setting up a limited company and getting a bank account open.

Except even these weren't necessarily straightforward. Firstly, we had to come up with a name and this took weeks of to-ing and fro-ing via email from my various stop-off points in Australia before we finally got one we both liked and felt encapsulated what we were trying to do.

Getting the limited company set up should be easy enough to do, but it was originally set up with one director and part of a holding group.

So this then had to be changed before we could then open the bank account. Banks do a lot more 'due diligence' these days and it took weeks to get the company structure and shares right before they would allow us to open the account.

Avoiding disputes

It's really important to get this right before you start and to establish what the shareholding should be.

Having been a minority shareholder before, it was really important to me that both parties had an equal share to avoid any later disputes due to the majority shareholder pushing their weight around and making decisions the minority shareholder has little control over.

But having a 50:50 split is not without its issues either. What do you do if there is conflict when you each own half the business?

Which is why it is so important to have a shareholder agreement outlining exactly how the shares will be split, what happens if one of you wants to leave, what happens if you want to sell the busi-

ness and a myriad of other points that can trip you up unless you've thought it all through beforehand.

You definitely need to get legal advice on this. It costs about £600, but is absolutely worth it in the long run. I had been bitten once before.

Very big bet

The next big challenge was to work out how much money each of us would put in. This is so important. You are essentially placing a very big bet on something working.

How much money are you prepared to lose if it all goes wrong? You have to be prepared to put up a sum of money that you might lose – can you afford it?

Also, you need to decide why you are setting up the business. Is it a lifestyle choice; for example, just doing private work out of a private hospital and getting paid for each consultation and procedure you do?

You are essentially placing a very big bet on something working. How much money are you prepared to lose if it all goes wrong?

Or are you looking at developing a business to grow your income, or even possibly looking at selling it at some stage in the future – a five- to ten-year horizon? This will affect your strategy and business model.

We decided the plan was to set up a chain of clinics which we would sell – hopefully – in five to ten years.

So having got the basics in place, the next stage was to work out the business case. Can your business idea make money? The premise of ours was affordable, high-quality surgery. Therefore, I had to work out a model that allowed us to undercut the competition, but which was ultimately profitable.

You need to decide why you are setting up the business. Is it a lifestyle choice ... or are you looking at developing a business to grow your income?

There are a number of challenges working within the medical profession. Doctors are by and large not business people, so our model was built on offering the business support to consultants.

So, we would offer the appointment setting, invoicing, sales, marketing, finding clinics, getting them up and running – allowing the consultants to get on with what they are good at without the headache of having to run their own practice.

I was lucky that I had access to a huge amount of data from an existing clinic and I used this to start working out what the model looked like. You have to start off small.

You see so many people on *Dragons' Den* spouting tremendously large revenue figures by the end of year two. Well, yes, wouldn't we all like to have businesses like that?

The reality is, you need to test what you're doing first and if your plans are to roll out a chain of clinics, you absolutely need to get one running first of all to test your model.

Test it out

Does it work? If not, would it work if you tried something different? And if not, that is your second point at which you walk away. Your first point being when you've calculated your model and the figures don't work.

The model was very conservative and based on consultants working two days a week. Even that is probably a big ask, as many consultants are understandably reluctant to give up NHS work unless they know their private practice more than compensates for the steady income.

It showed that it wouldn't work based on only one consultant day a week, unless you could get multiple consultants working out of one location. Equally, we were set to make a fortune based on a five-day-a-week model. Only that wasn't realistic.

We settled on two days a week with a very slow build-up, taking up to ten months for a consultant to reach near full capacity.

Then – get it checked by an

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accountant. Explain the model, what your assumptions are and how you've come up with the figures you've come up with and then leave them to pick holes in it.

You really need them to do this – this is not the time to be precious. You may have missed something vital that you can't see when you're up to your eyes in multiple-paged spreadsheets.

Work out your profit and loss and, almost more importantly, you need to work out your cash flow. How much money is it going to cost to get you up and running and until you reach the break-even point. Are you going to have enough?

If not, how are you going to fund it? If you need to go to the bank for a loan, you will need to have a very robust plan and financial model before they will look at you.

We looked at 'angel' investors, too, and crowd-funding platforms. Angels would only really be interested once you have your business running, so they can see whether or not there really is potential – you will have to give up equity.

But, hopefully, in return you get investment and, more importantly, good business advice as long as you choose your 'angel' wisely. Crowd-funders only invest once you have several years' worth of accounts and all you're getting is money at a good rate.

There are lots of free and cheap software applications that you can look at to help keep costs down, such as online booking systems or outsourcing your payroll, when you get to that stage.

Website essential

All businesses these days need a website and you could do worse than get a free template from Wordpress. It's relatively straightforward to use. However, I recommend documenting what you want your website to do first.

What look are you going for, what image are you trying to convey, what information do you want to share, what functionality do you want it to have and so on.

Having spent a fortune on websites in a previous life, my big lesson was to start simple. You can add more complex functionality at a later stage. The beauty of something like Wordpress is that, for less than £200, you can get a more functionality-rich site, which will allow you to plug in external applications, such as online booking or payment.

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When writing copy for your site, remember that it is your shop front. You want to give people the information they need for them to decide whether your company/clinic is the one they want to use. Use plain English.

If you're going to use medical terms, explain them in non-medical ways. Telling someone that a risk of a procedure is thrombophlebitis, for example, may make perfect sense to you, but to the layman this means nothing. Don't baffle them with science.

Keep it simple

Also, don't overload them with information – unless it's useful. Keep it simple and to the point and make it easy for them to contact you. I'm a big advocate of having contact details (phone, email, 'book now' links) on every page – top right-hand corner is a good place and where most people look.

Continually let them know they can contact you if they want more information – encourage the 'sales' process as much as you can.

Make sure you proof-read it. There is nothing worse – especially for me, a grammar pedant, and lots of others too – than incorrect spelling or apostrophe abuse.

If you can't get that right, what does it say about your service? Check all the links work, on every page. Give the link to friends/colleagues/family to read to make sure it makes sense. Ideally, get a non-medical person to read it and ask if it makes sense.

Is the information readable, can they navigate around the site easily, could they work out how to contact you, does the contact form send you an email notification and so on.

The more people you can test this on, the better. Only set it live once you are happy it's all working properly. If you have a phone number and contact details on there, you must be able to respond quickly. Have you got someone who can do that, if it's not you?

Do you want to use social media such as Twitter, Facebook and have a blog? If you do, these are very time-consuming activities to keep up with.

Search engine optimisation firms will very convincingly sell you the dream of 'page one' rankings. The reality is you will spend a lot of money for very little return

You have to constantly use them and refer them to your website and have links to them from your website. If you can add new content regularly to your site, it helps move it up the Google rankings.

Don't forget that you also need to submit your website to the main search engines – Google, Bing, Ask, Yahoo and so on – for them to start indexing your site, otherwise you won't be found.

Be warned, it can take up to three months before you start creeping up the ratings. Search engine optimisation (SEO) is an extremely complex beast, but I don't recommend using SEO firms.

They will very convincingly sell you the dream of 'page one' rankings. The reality is you will spend a lot of money for very little return. Far better to make sure you have all the key words that you want people to find you with peppered throughout your content and if you want to, use Google Ads to bring you on to the first page of a search.

Again, this can eat up your money, so I set a daily amount and limit – once the money has run out for the day, it's gone – rather than racking up massive advertising costs.

Google Analytics

Getting to grips with Google analytics is a 'must do'. It will show you what search terms people are using to find your site, what pages they visit most and where they are based. All this is useful information to help you tweak your site.

Having established the model made sense and that there was a potential business, the big challenge really began. Getting the business up and running.

This involved a whole range of activities, from sourcing equipment, to finance deals, to finding clinics to operate out of and consultants who wanted to work with us.

The first bits were easy: getting all the building blocks in place takes time, but having contacts really helps and the internet is your friend. The real challenge has been trying to find the clinics and consultants.

We talked to three main sup-

plier companies and presented the model, believing that they may wish to partner us to help grow their own business by helping us with finding clinics and consultants.

Unfortunately, as they were much larger organisations, getting decisions made took a very long time. We are, in fact, still waiting for one company to come back to us despite having had multiple meetings with them and given them a detailed commercial plan.

The other only really wanted a commercial arrangement with us to sell their kit and consumables and weren't interested in developing the business with us.

A third one was interested and as a one-man band was much more able to pick up the model. He opened a couple of doors at clinics for us, but as our model was based on using spare capacity in minor surgical facilities, it didn't work for them, as these are their most profitable rooms.

Stumbling block

As it was a low-cost model, we couldn't use the main hospital groups, as they were far too expensive to use for what we wanted to achieve. And we didn't need to pay the overheads of a highly equipped hospital for walk-in, walk-out surgery. We only needed access to minor surgical facilities with Care Quality Commission (CQC) accreditation.

This proved to be a major stumbling block. Trying to find private or NHS GP surgeries with minor surgical facilities was hard enough, but then trying to get to speak to the practice managers proved almost impossible.

They get so bombarded with medical reps and other people wanting their time that you can't get past the receptionist. It seems a shame that a receptionist can make a decision to say no without allowing you to talk to the practice manager about a real opportunity to help generate extra income for the practice.

Trying to contact relevant consultants also proved incredibly difficult even with the backing of my business partner, who is a highly respected doctor.

He contacted a lot of consultants via LinkedIn, giving a brief outline of the proposition. While we got some responses to that, it was impossible to then get to talk to the consultants who emailed us.

A couple did, but all they wanted to know was how much money they could earn. Not unreasonable, I suppose, but given that we wanted to offer a customer-centric, high-quality service, I was hoping to speak to consultants who were excited by that opportunity as much as by the money.

Valuable insight

I did speak to one delightful consultant in Ireland who gave me a lot of very valuable insight, even though we both agreed early on that the opportunity wasn't right for him, based where he was.

He did say that, had he been on the mainland, he would have jumped at the opportunity. But it was really useful to run the model past him and to get his feedback on how he thought the model would work for him as a consultant.

Which brings me to my next top tip. You need to talk your model through with all the types of people who may be involved to get their perspective on whether it would work for them. As a consequence of my conversation with him, I tweaked the model.

I also spoke to insurance firms; very important if you are hoping to get your patients' treatment paid for by health insurance.

Interestingly, one insurer was not taking on new facilities and no longer covered this particular condition. You have to jump through many more hoops these days with the provider teams at insurance companies – lots of forms to fill in before they will consider you as a business – as opposed to a consultant wanting practising privileges.

The other minefield I had to navigate was understanding the complex requirements of the CQC.

By the time I'd downloaded two PDF documents, both in excess of 200 pages, my brain had already started going into meltdown.

It was incredibly difficult to find out what we needed to do and then there was a bewildering array of evidence we needed to supply to ensure CQC requirements were met.

There are companies out there who can help supply ready-made documentation with the up-to-date requirements – useful if you're going to have multiple clinics, for example. But don't underestimate the impact of CQC accreditation – not just in getting it, but maintaining it and all the evidence you need to support your business.

If I knew at the beginning what I know now, I'm not sure I would have started on the endeavour.

The business idea may have been a simple one, but the reality is that what we were trying to build was more complex than I had realised at the outset.

Thinking that one person full-time – part-time, actually, as I was doing some contract work to keep the money coming in – and another with only a very limited amount of time to devote could get this particular business off the ground was naïve.

Impossible task

Starting a new business such as this one with limited resources was madness. Unless you have all the requisite skills and knowledge of setting up a clinic/multiple clinics, it is a near impossible ask.

Ideally, three people full-time would have been a far better idea and with a lot more money than we put in. This would have allowed one person to be out there finding the clinics and talking to consultants, another putting all the operational processes, back-end procedures, sourcing equipment and so on in place, and the third pushing the training and regulatory/clinical aspects.

At a push, we could have done it with two people and added a third later. As it was, I was largely working by myself with very limited contact with my business partner.

This can be demoralising and you don't benefit from bouncing ideas off someone else. You have to have very strong motivation for what you are doing if you are going to do it by yourself.

Eight months down the line with all the building blocks in place but still no clinic to trial the model at or a consultant willing to take the risk, we've had to face the unfortunate fact that either the model is wrong, the time isn't right or that we weren't the right people to do this.

I don't think it's the latter. We

certainly had the right skill set between us. Having other people on board sooner would have made a difference.

It has really underlined for me that you can't do this sort of thing half-heartedly; there needs to be commitment, time and energy from all the business partners.

Maybe the model is wrong – perhaps there isn't any way of offering the treatment except through private hospitals. In which case, we would just become another competitor in the field with nothing unique to offer.

The upshot is that, reluctantly, we have decided to put the whole thing on ice due to the reasons above and because one business partner now has even less available time than before and for me.

I can't afford to keep going without earning any money, as I've not taken anything from the business in eight months and now need to look at ways of generating income. ■

Karen Espley (below) is a medical business consultant who helps doctors in developing start-up ventures and websites