

Finance for your practice

Stuart Burn considers the options.

When investing in a practice with surgery equipment, digital imaging, and refurbishments, an easy option historically has been to use the overdraft or fund from surplus cash resources. This magnifies the importance of understanding the difference between profitability and cash flow. A business rarely goes bust through its losses, but uncontrolled cash flow will result in serious trouble.

In the current economic climate, the old adage 'cash is king' should come to the fore. This does not mean spend your cash. In fact it signifies the opposite, protect your cash and use funding wherever prudent.

Cash is the lifeblood of your business. Those that manage their cash flow best will always be better placed, in recession, in recovery and in growth also. Raising clean and efficient finance is therefore key to those that want to flourish rather than just survive.

Recommendations

My recommendation would be to 'spread the load'. Try to use a combination of lenders to help with larger projects, use finance companies where possible and do not be 100 per cent reliant on your



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own bank. A bank is great for long term loans (10-25 years) for practice purchases and mortgages. They are also great for most working capital requirements such as overdrafts. However, funding an asset often suits a finance house better because they take greater store in the value of the asset. This means there are usually less financial checks and less security (if any) required. This allows the load to be spread and takes the pressure off one source of funds (your bank), particularly if they hold a first or second charge at a time when property values are stagnant or even falling.

Even within asset finance, a single lender may have trouble in securing the funds you require. A finance broker with many funding lines is often better positioned to obtain the level of credit you need and at more competitive rates as they are shopping around for you.

Type of finance

It is important you consider the facility used to finance any purchases, to ensure you maximise the tax allowances that are available. In terms of asset finance you can choose; hire purchase, lease, loan, cash or overdraft or indeed any combination.

Spread the load and use a combination of lenders to help finance larger projects.

Your accountant and/or a good financier will help guide you through the best route for plans and your practice.

Indeed, many people are still unaware of the Annual Investment Allowance (AIA) which allows up to £100k of capital expenditure to be written off against tax in the year of purchase.

The AIA was introduced in 2008 when the Government wanted to help stimulate the economy by offering this additional tax incentive for those investing in new equipment and other assets.

However this very welcome fillip is being reduced to £25k from 2012 so it really is a case of use it or lose it.

It's all very well knowing the rules but how they apply to your business and the timings of both your investment and the tax relief is the other half of the story and again this is where your accountant or financier should be able to help provide a guide to minimising your repayments and maximising your benefits.

With so many options available and the rules in constant flux through the Budget each year it makes sense to speak to an expert each time to make sure your money works as hard as possible.

