BURNS ACUTT

FINANCE, ACCOUNTING & TAX

Financial Health For Medical Practitioners

Financial Advisory Report covering 12 of the most common issues medical professionals have in their practice and the possible solutions

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Financial health - a prescription for medical professionals

When it comes to their craft, medical professionals are esteemed for their dedication, integrity, sense of responsibility, knowledge, and focus. However, when it comes to financial management of their practice we rarely see the same level of excellence.

DESCRIPTION & DIAGNOSIS

Financial management as a concept is often misunderstood, and is usually associated solely with large organisations. In reality, however, financial management is a vital process to be used across the board, regardless of the size of enterprise or practice. As such, all medical practitioners should have a strong grasp on what financial management is, how it applies to them, and what its benefits are.

By definition, financial management has to do with the planning, directing, monitoring, organising, and controlling of monetary resources and includes aspects such as procurement, funds utilisation and distribution, investments, remuneration, bookkeeping, tax considerations, and reporting.

These concepts can seem intimidating for anyone whose area of expertise and knowledge doesn't include financial competency. It seems excessive for medical specialists to be expected to incorporate financial management into a situation that is already overly demanding. However, as overwhelming as the prospect of financial management may seem, it simply cannot be ignored, especially not by professionals in the medical industry.

SYMPTOMS & RISK FACTORS

Medical practitioners face unique challenges when it comes to maintaining financial health. For instance, it takes years before doctors get their undergraduate and medical degrees. While most other students graduate in their early 20s, most medical professionals only leave medical school in their early 30s. Due to starting their careers later, medical specialists lose around

10 years of income before they are sufficiently qualified to start earning a decent salary.

Furthermore, medical specialists face long hours of intensive work, and many also still have the added task of maintaining and managing a private practice on top of that. Given that this profession is so demanding, it makes sense that medical professionals would rather spend quality time with their families whenever they can, rather than attend to the day to day financial management of their practice The day to day management of financial systems in their practice. The preparation of financial statements, debtors and creditors management, and dealing with company management accounts, are all time consuming tasks - not to mention the handling of invoices, having the bookkeeping up-to-date, and making sure the necessary business documentation is printed out, filed and organised correctly.

Finally, because of their confidence, which is a very important characteristic for a physician to have, it's not easy for them to ask for help.

Now considering all these unique factors affecting medical professionals, it easy to understand why they tend to continue accumulating debt, living beyond their means, and failing to save for the future.

To prevent these financial pitfalls, professionals need to start planning and making financial decisions as early as possible, living off realistic budgets and having an achievable financial plan to ensure their earnings are not only optimised, but remain safe throughout their careers. Our role is to assist in the tax planning, optimising their ater tax income potential so that they, together with their financial advisors can work with up to date, accurate information.

RECOMMENDED TREATMENT & ADMINISTRATION

Sound financial planning and management are very closely linked to success. To better illustrate just how close they are, one should consider the characteristics typically associated with successful people - and to see how they relate to financial management.

The four key characteristics associated with financially successful people are:

1. Commitment to financial information

Without exception, persons who are considered successful assess their financial information on a monthly basis. Whether it be a review of the cashbook, an analysis of the profit and loss statement, or a comparison to prior years' performance, they will, without fail, understand the income, expenditure and cash flows of their business in detail.

2. Accuracy of financial information

Instead of taking financial information at face value, successful people tend to cross-examine the information. In the first place, they look for accuracy in allocation, so that they can understand what it is they are looking at. They then try to align their understanding of the actual results with what they were expecting. There should be very little disconnect here, and if there is, a prompt inquiry should be entered into until the discrepancy is adequately resolved. Lastly, they look for opportunities to improve performance and profitability. They do this by first assessing revenue and revenue possibilities through sales reports and sales analysis. They then look at costs, and try to identify opportunities to improve cost management and cash efficiency.

3. Advisory services / management meetings

Rather than rely solely on their own perspective, financially successful people always relate the performance of their business to their support structures. Whether these be fellow partners, management staff or their accountants and tax advisors, they seek out fresh perspectives, encourage interpretation and request feedback regarding business performance. Just as a medical professional's advice is sought by their patients when an illness is suspected, so a financially successful individual will seek out advice from others in order to gain insight into the opportunities as well as the blindspots that could ultimately add significant value to the organisation.

4. Strategy

Last but certainly not least, successful individuals always have a plan in place. They also realise that nothing is set in stone and remain open to changing and adapting their plan as new information becomes available to them. In this sense, they are forward thinkers who embody the adage of "Failure to plan, is planning to fail".

SIDE-EFFECTS

Of course, much more is required for successful financial management besides the above traits, such as experience, technical skills, market knowledge, product knowledge - the list goes on. The point I'm trying to make with this, however, is if the key elements of financial management are, as per my earlier definition, planning, directing, monitoring, organising, and controlling monetary resources of any individual or organisation, then it will serve the medical profession very well to follow at least the four common practices shared by financially successful people.

It's not only accountants and auditors that have access to accurate financial information. You can just as easily use your practice's financial data to draw up a financial plan, and to get advice or feedback from one of your contemporaries.

Our role as accountants and tax practitioners to the medical industry will give you peace of mind that your financial affairs are being given the focus they deserve, while you get to finally spend that much-needed quality time with your family.

If you have any queries in this regard and would like to have an initial conversation, click here to set this up and let's see if we can achieve something together.

2

Time - a most precious commodity

Although time has different meanings to different business industries, nowhere does it have nearly as much meaning as it does within the medical profession. Where business executives might use it to schedule meetings, or to justify a missed deadline with the phrase, "Better late than never.", a medical practitioner is all too aware that when it comes to the saving of lives, there is no such thing as "better late, than never".

TIME MATTERS

Due to time being such a crucial factor in the diagnosing and treating of a patient, many medical practitioners feel that little of their time truly belongs to them - and if the official numbers are anything to go by, it is clear why they think so. Judasa recently confirmed junior doctors are expected to work 40 normal working hours per week, and 60 to 80 overtime hours each month. And within this grueling, yet required 300+ hours of work a month, it is quite common for doctors to work continuously for more than 36 hours at a time.

It's no wonder then, given the miniscule amount of time medical professionals actually have beyond practicing medicine that their business financials would fall by the wayside. It makes sense that medical practitioners would rather spend their limited spare time with family, or catching up on much-needed sleep, than working on their finances.

MONEY IN, MONEY OUT

When it comes to their financial management systems, the medical industry is unique in that money is not intrinsic to everything they do. Whereas most other industries regard financials as central to every other facet and function of the organisation, where even time is assigned a monetary value. And time is money, as they say.

Unfortunately, however time-disadvantaged medical professionals may be, it is just as pertinent for them to find time to manage the business side of their practices, as it is for all other kinds of business executives.

There are several financial health issues that commonly affect medical specialists, and most of them stem from miscalculating the scope and complexity of their financial requirements. It's about more than just billing - a lot more. For example, compulsory tax considerations include: ensuring payroll taxes comply with the laws and standards affecting them; and keeping value-added tax (VAT), personal taxes, and company taxes up to date. Don't forget how important accuracy, and especially timeliness are when it comes to financials - deadlines for taxes are fixed and harsh penalties are imposed for late submissions, and even if you do submit your forms on time, you can still be penalised for filling them in incorrectly.

BREATHE IN, BREATHE OUT

If your profession is already so stressful, it doesn't make sense to let finances stress you even further. What does make sense, though, is for them to make use of an outsourced accounting services team, consisting of only the most highly-skilled and experienced specialists, such as chartered accountants.

They have all the skills necessary to handle each and every facet of your financial portfolio, which includes tax return services. The benefits of having a well-structured financial plan drawn up are many, such as an increased likelihood of getting tax back, since all your expenses will be properly documented and therefore, easier to claim for. An accountancy and taxation services specialist will also have a very firm grasp on the ever-changing tax and VAT Laws. Your investments can also be optimised to reduce the tax burden.

An outsourced accounting services provider can add significant value through continually identifying opportunities for increasing your financial success. Since they are actively involved in the financial industry, and deal with clients very similar to you, much can be gained from getting an outsourced financial team on board.

A good outsourced accounting services team will always ensure your financials meet the following standards:

a. Compliant
b. Timely delivery
c. Accuracy
d. Well advised
e. Handled with the appropriate skills and qualifications
f. Well planned

When you considers those members of the medical fraternity who are the most successful, have the highest degree of control over their affairs, and who enjoy the added pleasure of sustained surplus cash flows, you'll note they all have something very important in common - they outsource their money matters to the best accountants and financial support available .

If outsourced financial support happens to be something you are currently considering then lets talk. We do not charge for the initial consult as we biasedly believe that as a consequence of our qualification, commitment to ongoing training and professional network, you should soon see that you are in a safe pair of hands.

Click here to set this up and let's see if we can achieve something together.

3

Solid bookkeeping is key to keeping your business

If there is one thing more alarming than a business flying blind financially, it is one flying blind without realising it. When an organisation fails to keep pristine financial and accounting records, it is at considerably high risk for any number of potential losses - including financial loss, reputational loss, and loss of market share, to name a few - which will eventually lead the enterprise to a state of liquidation. Solid bookkeeping should, therefore, be rated nearly as important as the business entity's operations. A close second to the actual business is how I like to describe it.

Given how small the mistake seems in relation to the severe consequences it can have, you are probably thinking I must be exaggerating. Let me assure you, I am not. I have seen more than one brilliant medical professional incur hefty penalties because of unnecessary errors he had in his financial reporting. When it comes to the finer details and accuracy in reporting, things are better left to the professional accountants in business financial matters. The tax man is harsh, militant and offers no leniency for misinterpretation, in fact, to the contrary, he responds with harsh penalties and backdates interest, all the way to the date of the original transaction, even if it is 10 or 15 years ago.

BREAKING (IT) DOWN

Consider the following:
If you don't know how much money you are making, what it costs to make that money and where that money is ending up, then how do you know if you are making a profit? And are you making sure you are getting the best financial benefits possible?

The answer, of course, is that you don't know, because you can't know. Inaccurate business accounting systems point to financial trouble in the company, and that includes medical practices. In fact, it very often signifies the beginning of the end, unless financial auditors and accountants can be called in quickly to remedy the faulty process and inaccurate records.

There are many other benefits to maintaining detailed and accurate bookkeeping, such as helping you gain an understanding of the financial flows taking place within your practice. A sound bookkeeping system will give you narrowed-down visibility into the various areas of your organisation, so you can quickly identify and remedy errors.

If you're still doubting the tremendous impact something so simple as bookkeeping can have on your practice, it will help you to consider the following scenario. Imagine you notice that on one of your tariff sheets, a tickbox that should've been ticked, isn't. A missing tick may not sound like a big deal on its own - it's only a few thousand Rands worth, that you lost by failing to tick the box - but what if you start making this mistake on many sheets, and you do so multiple times a month - then of course the numbers and costs involved start to become substantial. Believe it or not, this happens surprisingly often. As a medical professional, wouldn't it be a relief to know that you at least have this side of your financial affairs covered? I think so.

Once you start keeping good records, you'll notice more and more opportunities for decreasing your expenditure and saving on costs coming to light. Through the simple process of assessing what was spent in the business and why, a whole world of financial opportunities will start to open.

LEGAL EASE

Now that we've explored the benefits a well-kept bookkeeping system can bring to your practice, I shouldn't forget to mention that there is a legal angle to all of this as well - in fact, all business owners are required, according to the Companies Act, to maintain accurate bookkeeping practices and detailed records.

Furthermore, solid bookkeeping is also helpful when it comes to SARS. If SARS are not happy with the quality of the information and supporting documentation you provide, they may decide to dismiss all of your expenditure and input claims. And to resubmit your tax claims is not often a lucrative venture, as it usually results in mostly unwanted assessments that include penalties and interest. And before you know it, you are working to pay the tax man with a bill equalling tens of thousands of Rands. All because you thought you didn't need corporate accounting services - or ironically, you thought you'd save a few hundred Rand on professional tax return services.

Ultimately, solid bookkeeping is a critical success factor in the large majority of business ventures and certainly in medical practices. It will be those who commit to handling their financial affairs as professionally as they do their medical ones that end up becoming market leaders, and get to enjoy their sustained financial success.

In short, with a strong bookkeeping system in place, you can expect the following:

- **Compliance**
- **Accuracy**
- **Control**
- **Decision making**
- **Increased likelihood of success**

If you happen to be one of those medical professionals who are either running blind, or running with one eye open, then it might serve you well to consider talking to someone about gaining control of your numbers. You'll sleep better at night, knowing that your financial affairs are in order and the taxman is happy. So if anything, do it for your health and well-being as much as your bank account.

If you would like some advice, click here to set up an initial conversation.

Specialisation in practice

Any medical specialist will be able to appreciate the frustration that comes with trying to explain your field to someone outside of your focus area. It might seem agonisingly obvious to a medical specialist what specific subset of medicine different symptoms belong under, but a patient will rarely know the difference.

It might make complete sense to a patient to consult with an orthopaedic doctor for a sprained ankle, or to seek out the help of a paediatrician when struggling with their childs health.

Worse, someone with a serious ailment goes to Google to self-diagnose and "treat" their malady with a homemade hocus pocus "remedy" that does nothing but further aggravate the symptoms and worsen the condition.

Any specialist can appreciate and understand how important, often crucial, it is that a person seeks and receives treatment from the particular medical practitioner best qualified to deal with his specific ailment.

THE COST OF MISCONCEPTION

Being a tax and accounting services provider, Burns Acutt often bear the brunt of the consequences resulting from someone's misconceptions about the complexity involved in business financials. For example, we have seen enough times, how a talented medical professional's life and career can be changed due to compliance or calculation errors. If only the enthusiastic entrepreneur had stuck to his own area of speciality, and made use of an outsourced accounting services provider, he may still have been on his way to reaching his dreams instead of having to repay SARS for errors which were preventable.

Although there is usually enough time for us to still reverse the damage and set businesses firmly back on the road to success, sometimes it is just too late, and all we can do is helplessly look on as someone's life ambition take a massive set back. I'm sure all medical specialists can relate to this scenario, especially since they are often the last point of call a patient gets sent to when none of the generalised treatments have helped.

When it comes to financials, people often fail to accurately judge the complexity involved. It goes far beyond high-school-level mathematics and simple bookkeeping. There are many influencers that people don't take into account, such as economics, laws and best practices standards, payroll management services, and even specific rules pertaining to the preparation of financial statements, the list is long and complex.

THE SECRETARY ACCOUNTANT

A good illustration of mistaken assumption that plagues our niche quite regularly, is the secretary-as-accountant scenario. Due to the variety of skills a secretary must possess in order to effectively run and manage an enterprise, they are often tasked with handling the bookkeeping, too.

Although some secretaries can be adept at basic bookkeeping, the reality is that they tend to have a lot on their plates already. The reason why Burns Acutt can claim to have some of the best accountants in our team, is because that is all they do. Training, repeating of the process and properly supervised by qualified professionals.

Furthermore, you may believe your secretary is adequately performing accounting-related tasks, such as payments and recording of expenses, invoicing and dealing with medical aids, but you need to remember even these seemingly "basic" financial functions are subject to the constant changes in tax fluctuations and legislation revisions.

It cannot be stressed enough that a secretary cannot, and should not, be expected to handle accounting functions, not even those considered by most non-accountant industry professionals as "basic". Most professionals will have the same outlook on this issue and the reason for this is because specialisation exists. In comparison to the medical realm, it can be said that for us financial specialists, the secretary-as-accountant idea is just as incomprehensible as a nurse singlehandedly treating advanced-stage cancer will be for you.

As I already mentioned, the world of tax and VAT compliance alone is so vast, incorporating near-endless considerations, and this makes it victim to so many potential pitfalls that only a specialist should be allowed to traverse it. SARS will issue punitive sanctions or assessments on errors, whether they be interpretive, negligent, or otherwise.

Ultimately, it is the responsibility of the tax payer, not his secretary, to ensure his tax returns are done correctly. If SARS implements a penalty because of an error or oversight, one's secretary cannot, and should not, be held accountable, because the fact of the matter is that they should never have been allocated a task that lies beyond their skillset.

Therefore just like a GP might refer a patient to you for specialist scrutiny, it is advisable that you hand over your important tax affairs to a specialist taxation services provider. It could save you a significant amount of money in the long run and with the right partner, you can enjoy relevant conversations and practical insight regarding your financials. You may even find that structuring your affairs also gives you an earnings advantage in the years to come! If you feel you need assistance in any way, you are welcome to contact us for any queries.

Click here to set this up and let's see if we can achieve something together.

5

Why bother with tax planning?

People often ask themselves why they need to bother with tax planning and this is not wholly a bad question to be asked. The simple answer is that tax has to be paid, as it forms part of the function of overall profit, without planning would be optional. So in laymans terms, no plan would probably equal the highest cost or the worst tax position for oneself.

The general disdain for the doing of taxes appears to stem from the inaccurate perception that there isn't much to be done in the way of influencing the outcome of one's tax liability. I'm here to tell you that's simply not true.

For most medical professionals, the following example will help illustrate what I mean by this.

Within a private practice, money can be withdrawn as either a salary, or a dividend. The maximum tax rate for an individual, in the financial year ending February 2017, was 41%, while the dividend tax rate was 15%, and company tax was at 28%. Finally, the effective tax rate, which comes into play when you opt to draw money out of the company via dividend, stood at 38.80%.

Therefore, in order to enjoy the largest possible return on their taxes, medical professionals were advised to claim a salary of no more than R700k and take the rest of their earnings out via dividend.

Through having the right knowledge and employing the right skills, we were able to help our medical professional client base save 2.2% on their taxes in 2017. And before you think this doesn't look like a sizeable saving, consider that if your earnings had been R1.7 million, you would have saved R22 000 just by simply applying the above.

Wrap your head around it this way – Do you give R22 000 away for no reason at all?

SUBJECT TO CHANGE

Fast forward to the 2018 financial year (ending February 2018), and everything is different. One of the reasons I am so insistent that you look at using expert services offered by accounting firms, is because the financial market is influenced by so many different elements, it is near-impossible to adequately predict what the tax rate percentage changes will be from one year to the next - there is no winning formula. For taxation and accounting services specialists, however, it is part of the job to keep their fingers on the pulse, re run the numbers each year after the budget speech and figure out the best possible plans for clients, year in, year out.

For instance, the maximum tax rate for an individual in the 2017-2018 financial year became 45%, while the dividend tax rate rose to 20%. Company tax, the only one that stayed the same, remains at 28%. This would mean the effective tax rate now stands at 42.4%.

Given the new tax parameters, optimal return on a medical professional's taxes would result from a salary draw of no more than R1.5 million, and with the balance taken out via dividend.

Failure to adapt to this change would've meant a loss of 1.4% for the typical medical practitioner. Again, nothing to scoff at if you consider that on an amount of R800 000, you would've lost R11 200. Sure, this amount in context may seem nominal to some, but if I had to walk up to you now and ask you to give me R11 200 for nothing, would give it to me? Of course not, so why would you give it to the taxman? In essence, this is what tax planning is all about. Same as before, no one gives money away for no reason.

MAKING A PLAN

So to go back to the initial question raised in this article: tax planning is extremely relevant, if not crucial, to ensure one's continued financial success. This stands true even without considering the severe consequences that can result from provisional tax underpayment, late payment, invalid VAT claims, or having overdrawn loan accounts - all of which can be avoided by speaking to some recommended tax accountants or partnering with a taxation consultancy services provider.

As any financial specialist will tell you, tax planning is one of the first lessons one learns when studying tax. We run scenarios and learn that whichever scenario result in the lowest tax liability, is the most efficient tax structure for the scenarios being calculated. We are taught that every person has the right to structure their financial affairs in the most tax-efficient way possible - it is at the core of tax planning.

If you're still feeling overwhelmed or confused by this topic, please don't feel discouraged. Tax is one of the most complex areas of financial planning, which is why I have been covering it so extensively.

It is the reason most medical and other professional's first turn to us for help. If you would like to do the same, and put your mind at ease regarding your tax affairs, feel free to contact us.

If you're interested in this peace of mind, please click here. Due to our qualification and commitment to ongoing training and professional network, you should soon feel confident in our abilities, we will help you make better financial decisions.

6

Tax planning is planning for the future

One of the most common questions I get asked is, "Why is financial planning relevant?". To paraphrase the wise business magnate and investor Warren Buffet: don't save what is left over after spending, but rather spend what is left after saving.

Tax planning looks to the future in much the same way.

Having a solid plan in place, outlining which taxes you are going to pay, approximately how much, for what reason, and when you plan to pay them, will prepare you to deal with those inevitable annual letters from your accountant, and enable you to make all ancillary financial decisions with the confidence that your tax is under control. Or, if you prefer, simply outsource the whole job to a taxation and accounting services firm.

Whatever you decide, once you've committed to making tax planning a habit, it will empower you to make a variety of other important financial decisions.

PLANNING FOR PROPERTY

For instance, a plan will give you an accurate idea of what your personal budget is so that you can be confident about the size of property you can afford. Many professionals tend to mistakenly overestimate the value of their personal investment budgets as they fail to base it on their after tax earnings.

What happens too often is that the typical medical professional will turn to his pre-tax earnings, even including VAT in some cases, from which to work out what his income is. This is a big no-no and create a major cash flow issue if financial decisions are based on this.

Furthermore, certain key expenses are often incorrectly dismissed as "personal expenditure", and many medical practitioners we find, forget to include their partner's income and costs when investment decisions are made.

They tend to be far too busy with their patients to meet with whoever is responsible for their practice's debtors and creditors management, which means they don't maximise their tax payable or their future investment prospects. They seem to focus solely on a retirement annuity (RA) plan and the earning of interest to secure their financial future and maximise tax return potential.

So why don't medical professionals invest in property more? One of the main reasons appears to be an apprehension towards debt, which isn't necessarily a bad attitude to have - however, major drawbacks to purchasing a property cash, is that without added interest, not much qualifies as tax-deductible, and the rental soon becomes onerous on your tax payable, unless of course you are dealing with your primary residence.

QUESTIONING AHEAD

From our perspective within the professional services accounting field, we've identified the following three questions as the most common concerns among our medical professional clients:

- *In order to live comfortably, what size bond and property value should I be considering?*
- *Is an RA adequate for my retirement?*
- *Is paying cash for a property not better than paying interest on a property investment?*

When you start to compound all these questions, and take into account all the financial and tax considerations they require, then you can start to get an idea of how, over the span of a 30-40 year career, two similar-earning individuals could end up with vastly different net asset estates. And the difference lies largely in having a tax plan with future wealth creation in mind.

The individual with a narrow worker mentality - where the focus is on working, earning and trying to make good decisions - can expect an income that will probably be ineffective to a minimum of a few percent per annum.

However when compounded over the span of their career – Say 25 – 35 years, will likely result in a net wealth of a quite a few million rand less than their tax-planning counterpart.

This can almost entirely be attributed to the time invested in understanding their financials holistically and utilising those few percent differential to amass substantially more wealth than their counterparts.

As practising chartered accountants, my team and I see evidence of this divide daily, yet the sheer magnitude of the divide between those that do financial and tax planning and those who don't, never ceases to amaze me.
We are helping clients every day to achieve financial independence sooner in their lives, so that they can choose to retire earlier or simply work for the pleasure of service.

We help ensure they have stable futures, that their children are taken care of through generational wealth creation, and that they enjoy less stress overall.

Our vision is to continue guiding medical professionals towards excellence in their financial planning, so that they can continue to achieve even greater financial efficiency and return year after year.

If you would like to have an initial conversation, click here.

7

The ins and outs of tax deduction

When it comes to tax deductible expenditure, most professionals are unsure about what to include - and what to leave out.

However, understanding the difference between them is crucial, and this can be illustrated by the following example:

Imagine you have an expense of R100, and that it is tax deductible. This means you will need to earn R100 in order to pay the R100 expense.

Now imagine that the R100 expense isn't tax-deductible. This means you will need to earn a total of R174, since you'll be liable for an additional 28% in company tax (an amount of R49) and required to pay an extra 20% in dividends tax (an amount of R25), just so that you can be left with R100 to pay the bill.

In this case, we are talking about earning almost double the original expense amount - 74% to be exact - needed to pay the same very same thing!

To assist in understanding this worst case and other scenarios, please see this table and if you do have questions, remember we are here to help.

	R100 Practice Expense Tax Deductible	R100 Practice Expense Not Tax Deductible	Personal Expenses
Income generated	R 100	R 139	R 174
Deduction	-R 100		
Taxable income	R -	R 139	R 174
Income tax due	R -	R 39	R 49
	R -	R 100	R 125
Dividends tax due	R -		R 25
Net Cash	R -	R 100	R 100

Cash flow			
Expense paid in practice	R 100	R 100	R -
Tax paid (total)	R -	R 39	R 74
Expense paid by doctor	R -	R -	R 100
Total cash cost	**R 100**	**R 139**	**R 174**

This is why understanding the difference between deductible and non-deductible expenses is absolutely paramount to the overall success of your tax planning.

THE INS

According to the Income Tax Act, whatever expenditures (or losses) incurred in the production of the income, can be deducted.

Each industry is subject to its own unique identifiers, best practices and specific processes that are known and accepted by SARS, so you need to ensure you are making use of the best method according to your given field.

While all the basic items such as staff salaries, 3rd party payroll services fees, office rent, communication expenses, stationary costs, and staff meals might be handled easily enough, what about the more complex costs? Are the more complicated expenses, such as home office costs, licencing fees for the various healthcare financial systems you use, travel expenses, insurance fees, uniform purchases, interest, or even allowances on equipment also being optimally claimed for?

A good rule of thumb would be to make sure there is a commercial explanation for each expenditure type. In other words, if it is in the production of income, first make sure that you understand why, then make sure you can explain why it would be more challenging, or even better - impossible - to earn an income without the expenditure for which you are claiming.

Finally, make sure you keep a good record of all the relevant documentation, such as invoices, because you will need to submit them upon claiming for the expense deduction.

THE OUTS

A relatively common query among professionals is around school fees - they want to know whether academic expenses can be claimed for in a company tax return. Unfortunately, the answer is a resounding "no"! School fees, as well as any other private expenditure should never be claimed.

It is important that you differentiate between what is personal and what is business when it comes to every cent you spend. As a member of a private practice, you could end up spending more than you anticipate, but it should bring you some comfort at least, to realise that this could also mean increased opportunities for tax efficiency and savings. Make sure you claim and save 74% every single time!

Now, if you feel you would rather use an outsourced accounting services provider to take care of this for you, you are like the majority of professionals, across all industries. The key is to find an accounting and taxation services provider that understands how complex tax is, and how confusing it can be to determine what is really in the production of income - and what is not.

I would like to offer you a complimentary consultation to that effect, where you will be able to get a better idea of how all of this applies to your practice more specifically. All you need to do, is click here, and we can get started on setting something up.

8

Are trusts still relevant for medical practitioners?

Trusts are easily the most misunderstood and underutilised means of wealth management vehicles of those utilised in the small to medium enterprise (SME) market, and this includes private practice medical professionals.

Recent changes in law have effected both the use of a trust for tax purposes, and loaning money interest-free to a trust. Loaning from a trust is now deemed to be interest bearing, failing which a deemed donation and is subject to a deemed donations tax which is payable each year that the interest free loan is outstanding. This applies to both existing and newly-formed trusts.

Chartered accountants in South Africa are required to keep up with all relevant changes in legislation, as they significantly impact the services offered by their accounting firms. We pride ourselves in keeping up to date in this space by working in partnership with some of the leading tax consultants, attending training on a regular basis and applying our own minds to the legislation as we learn more and apply it practically in our day to day affairs.

TRUST GROWTH

These changes in legislation have prompted many small business owners to question whether trusts are still relevant. What many business and private practice owners seem unaware of, is that there are several additional benefits to having trusts, besides those recently negated by the changing tax laws. Many accountants and auditors, like myself, will argue that trusts still hold benefits which are worthwhile in SME accounting services.

These benefits, however, apply more strongly when a trust is considered a vehicle to grow wealth in, rather than one to store or transfer new wealth into. They are also more useful now, in my opinion, for younger professionals who wish to see their fruits grow throughout their career in a relevant vehicle.

In this way, trusts can provide benefits for high net worth families and individuals in the following three areas:

- **Risk protection**
- **Estate planning**
- **Tax efficiency**

To determine whether a trust is applicable to your needs, see how many of the following questions you answer yes to:

1. **Is it possible I may be litigated against, either through my private practice or in my personal capacity?**
2. **Do I want my estate to mitigate estate duty (currently set at 20% after the abatement) for the benefit of my children?**
3. **Can I be more tax efficient in terms of how my overall investment income is distributed to my family?**

The relevance of a trust for your practice increases with each "yes" answer.

TRUST BENEFITS

For a practical example, let's consider you do not currently have a trust. Both you and your wife can comfortably donate R100 000 a year into the trust, which can be left to grow with no loan account implications.

These funds and any growth incurred remain separate from your personal wealth, which means creditors cannot claim for them, should a credit dispute arise during the course of your medical career. The funds will also never form part of your estate, so upon death, no estate duties will be incurred on the assets donated to the trust, nor on the subsequent growth.

However donations beyond this or trusts with loan accounts who intend to distribute income to their children, can give rise to section seven attribution rules for the donor, especially where the children are minor children and so being aware and planning for that contingency is important and reiterates the need for sound tax advice and planning.

In terms of tax efficiency, costs associated with the running of the trust can be claimed the same as a company, in terms of s11(a), as a deduction against the income, and whatever income remains can be distributed to the beneficiaries. This will be taxed according to the individual marginal rates of the beneficiaries, which is often significantly less than the higher marginal rate belonging to investments made in your own name or the rate in a company or trust.

Bear in mind that the trust must actually earn income to claim costs and those costs must always be in the production of that income in order to be deductible.

If the above doesn't seem relevant to you, then I would suggest speaking to an accounting financial services provider about financial solutions that don't involve trusts.

If it does strike a chord, however, then I do believe a trust is a vehicle worth pursuing.

A final note, although trusts are generally more applicable to the growth of an estate than as a restructure option, they can still be considered for such on a case by case basis, so don't be entirely discouraged. You should discuss your needs with your local chartered accountants who should be up-to-date with the latest changes in the taxation of trusts. This way you can be sure that you are receiving the best accounting and tax services possible and that your wealth is being optimally structured and managed at all times.

If you need assistance and would like to have an initial conversation click here.

9

Why you need to have a sound financial environment

Running a successful private practice requires more than simply knowing how much cash you have in the bank. The management of company accounts remains an important aspect to the growth of that practice. A practice is of course, a business, in every way. Financial management should ideally be an ongoing process, I'd urge that you do monthly management accounts, meet with your tax practitioner at least quarterly and have a sound investment strategy with your financial advisor for the effective utilization of your profits.

It goes without saying that you will have reduced stress and a clearer vision of where your business stands at any point in the year, allowing you to make critical decisions and complete complex tasks ahead of time. Your net wealth will grow at an accelerated rate and with a little luck, you will either end up with a higher quality lifestyle or be in a position to consider early retirement. Increased travel, more family time or spending more time on the sports and cultural activities that you love, are all possible with improved planning.

One key aspect of cash management is the ability to forecast both inflows and outflows. In South Africa, Medical professionals tend to be tied to one particular medical aid for a fairly large proportion of their receipts. As such, any admin issues or technical glitches can have a catastrophic effect on the practice, notwithstanding any additional problems that may arise from the medical aid's side.

Then there are those large payment months, August and February, when the biggest tax payments are usually made. These are especially important to plan for ahead of time. Monthly management accounts can include tax return preparation services, so that the process can run smoothly and keep you in control.

Of course, some practices have to purchase large amounts of medication, and these bills are often due before enough cash can be generated, which also naturally places a heavy burden on cash reserves.

CASHFLOW TIPS

In order to keep your business liquid ensuring there is available cash reserves at all times, the following general tips apply:

1. **Keep at least 30, but preferably 60 days' worth of working capital available for general expenses, at all times. This should cover salaries, rental, general overheads and some allocation towards large creditors like medication and dressings.**
2. **Have a set of management accounts with a cash flow/ profit forecast. These need not be too detailed or complex, but should make provision for the following:**
   a. **Indicate key monthly inflows and the dates they are expected to arrive. Make sure they are sufficient to cover all operating expenses. Expected arrival dates should be monitored to ensure there are no delays in receipts from the medical aid.**
   b. **Large outflows like the aforementioned tax or bulk payments, should be catered for in the cash plan.**

All of the above should be covered before you consider paying yourself and any partners a bonus or dividend.

GREAT GAINS

The great thing about maintaining a sound financial environment is not only that it reduces stress, but the increased control will help increase your profitability so that you can regularly benefit from controlled profit. You can choose to do this on an adhoc basis via bonus or dividend pay outs, or you may even opt for a monthly salary adjustment, with the caveat being it is always linked to the numbers and subject to the controlled distribution of profit.

Personally, a salary adjustment is my favourite model. It means that because your salary is low, your cash plan is reduced accordingly. Each month, usually working one month in arrears and based solely on profit achieved in cash, you can then receive an affordable bonus, and once your R1.5million annual earnings bracket has been reached, you start to earn dividends. This is relevant to February 2018 tax planning and was not the case for February 2017. A classic example of where remuneration structuring can be impacted by legislation changes, failing which, your tax efficiency starts to become sub optimal.

This same model can be used for senior staff and potential partners, to further benefit you by mitigating the risk involved in your low earning months.

Implicit to the above, of course, is you require either time enough to do this, or a financial partner competent enough to do it for you. With an able financial partner on board, one hour a month will be all that is required from you in order to better understand your finances and make the relevant financial decisions.

To find out how your practice can benefit from management accounting services, I would like to offer you a complimentary consultation with Burns Acutt. We do not charge as the first conversation is all about seeing what we can achieve, together.

Our philosophy is that if we can be of assistance, add value and make a positive difference in your life then the rest will take care of itself.

If this Financial Health Report has made you feel inquisitive, please do take up this opportunity to engage. We do not charge for an initial consultation. This consultation will help you make your decisions with the best information possible. Click here to set this up and let's see if we can achieve something together.

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So many different accounting systems, so little time

CHOOSING A SINGLE SYSTEM OUT OF ALL THE ACCOUNTING SYSTEMS AVAILABLE TODAY, CAN SEEM DAUNTING FOR ANY MEDICAL PROFESSIONAL.

Medical practitioners generally have little knowledge or experience regarding their choice of financial management system and which would be the most effective for their practice.

They also tend not to be adept at the setting up, management, and day-to-day control operations of accounting systems. This is completely understandable. Invoicing is generally taken care of through the use of specialised healthcare financial systems. These cater well for the kind of detail required from medical aids so any medical professional with his own practice should not work without one.

The issue with these specialised systems, however, is they are generally not integrated, and therefore do not allow for comprehensive accounting and tax functionality.

DECISIONS, DECISIONS

In order to maximise control over your finances, it is important to implement a financial management system into your practice. This will also save you a lot of money on accounting and tax services in the long run. Some of the more popular systems available include Pastel, Quickbooks and Sage, although each one comes with its own pros and cons. This also applies to any cloud-based system, such as Xero, which is currently gaining a lot of traction as one of the most easy-to-use intelligent financial systems on the market.

The key questions to consider when comparing accounting systems are:

1. **What do I want out of the system?**
2. **How do I make it work with my existing data and systems?**
3. **Can I afford it?**

Let's have a look at the first two questions, and perhaps I can help alleviate some of the concerns you may have.

WHAT DO I NEED?

To answer the first question, I would advise that you choose one of the integrated financial systems that is compatible with your payroll system, since your payroll system is likely your biggest expense and most complex area to manage. The second most important feature to look for is usability. Look for a system that can, at the click of a button, tell you exactly what costs you are incurring, what your revenue trends are, and what your current and projected profit is.

If your chosen financial management system includes the above functionality, it will empower you to make the right decisions, while also preparing you for imminent large cash outflows, such as tax, creditor payments or bonuses.

HOW DO I INTEGRATE IT?

In order to integrate your new business accounting system, you need to capture all of your existing transactions into it. You can do this either manually or by importing the data, which will not only save you time, but eradicate the possibility of human error. Once the new data is in place, you will need to confirm fund allocations. Once this is accurate, you will be able to do financial projections based on your knowledge of the business as well as current trends and run rates.

Although this might seem initially complicated and time consuming, I can assure you accounting systems are not only fundamental to running an administratively strong business, but well worth the rewards you can gain from them.

An alternative way to tackle this daunting task, would be to first partner with an accounting and tax services provider, and let them help you choose a system. Surrounding yourself with the necessary skills at a reasonable fee, will make this part of the process much less daunting for you.

If you bring your accounting and taxation services provider on board, they can take away some of the burden of control from you, while supplying you only the information you need in order to make empowered decisions.

The beauty of technology is that information can be shared through the cloud, which will allow you and corporate accounting services provider to work on your finances together, in real time. With changes in data reflecting almost instantaneously, you will be able to rest assured that you are always making the best decisions for your business based on the most current information available.

So although the ultimate choice between accounting systems is up to you, it will greatly benefit you if you let this decision be guided by your accounting services provider. A good accounting services provider will have strong financial knowledge, to best advise you on any fiscal business decision.

Click here if you have any queries or need assistance in this regard.

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All about allowances

Allowances are a critical part of tax efficiency and claiming these costs accurately can make a substantial difference to your tax liability at year end. If you are apprehensive about claiming allowances, there is no need to be, qualified support will make sure that you are utilising them and compliant and I hope I can alleviate part of your worry by sharing some basic insights about allowances with you now.

For a start, items purchased under R7 000 can be expensed in full, so there is never a good reason, from a tax perspective, to capitalise small assets. Anything above R7 000 has to be written off as per the wear and tear allowances allowed by SARS.

MISCONCEPTIONS & TYPES

A common misconception often creeps in to the allowances discussion, which concerns the use of the word "depreciation". Many will incorrectly claim for "depreciation allowance" when, in fact, depreciation is an accounting term and not suitable for tax purposes. For tax, the correct term to use is "wear and tear allowance".

Before getting into the different types of allowances, I need to stress the importance of having an updated, detailed fixed-asset register. It needs to list all of the business assets purchased, including their purchase dates and cost, and it needs to show how much has been claimed for both depreciation, as well as wear and tear. Any discrepancies are treated as deferred tax assets or liabilities, and are a completely separate, complex matter which must be dealt with another time.

As far as wear and tear allowances go, there are three different types that come into play. These are:

1. **The standard allowances**
2. **The accelerated allowances**
3. **Certain special allowances**

Standard allowances are for items such as medical theatre equipment, personal computers, delivery vehicles, and oxygen concentrators. Each asset type has a corresponding number of years of wear and tear, and it is key to use these years optimally. Accelerated allowances and special allowances are not often applicable to the medical profession, however it's worth being aware of them for those occasions when they do.

TRAVEL ALLOWANCES?

This article has discussed the allowances available on assets so far. Other commonly referred to allowance are travel and subsistence allowances. This is not looking at what SARS will "allow" as a deduction, but rather what your employer will pay you in addition to your salary to compensate for business expenditure incurred when travelling. Or most often, how you can repay yourself from your practice for the travel that you do.

For local travel, up to R122 can be claimed for incidental costs per day (or part thereof), while R397 can be claimed per day for meals and incidentals. It is very important that receipts be kept and that claims do not exceed the maximum allowance per day.

The standard international travel allowance per day is $215 for meals and incidentals.

Travel expenses depend on various factors, but you will stand to gain the most through efficiently applying the various applicable legislations.

Although accelerated allowances and special allowances are not often applicable to the medical profession, it is important that they be kept front of mind so that they can be implemented when the opportunity arises. Expecting anyone besides qualified accountants to identify such opportunities is probably expecting a little too much, since it requires constant and dedicated monitoring of the business accounting systems and transactions as well as the application of those systems and transactions to the relevant legislation.

A common example I use is the advantage of dealing with numerous medical professionals and working in a space with access to the majority of tax legislation application and changes is the fact that only one example of tax efficiency is needed for that principle to be applied across the entire client base.

It really does make sense to deal with someone who specialising in your profession, just like you often see specialisation in the medical profession itself.

If you are still feeling unsure about what exactly is required for the tax return preparation of your business allowances, then I do hope you will consider contacting Burns Acutt accounting and tax services.

We do not charge for the initial consult, we biasedly believe that as a consequence of our qualification, commitment to ongoing training and professional network, you should soon see that you are in a safe pair of hands. There really is only one way to know, so come and find out and make your decisions with the best information possible. Click here to set this up and let's see if we can achieve something together.

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The end... is only the beginning

I compiled this Financial Health Report based on what I understand about the financial knowledge limitations of the average medical professional. In this vein, our dissimilar areas of skill specialisation can be regarded as complementary.

However, when considering a partnership or working relationship with a new service provider, there needs to be similarities too. Incidentally, medicine and accounting operate under very much the same fundamental principles, the accounting profession is governed by the code of professional conduct and Burns Acutt is even more specifically aligned to it's own internal culture which you may find are associated with the medical profession.

We look to align ourselves in business and in life, with contemporaries who complement these values, giving us the opportunity to evolve them, improve them and share them. In short, we are an ethical firm who looks to live the right way and we define what that means, train it, talk it, and live it.

Let me briefly explain what Burns Acutt stands for and believes in - if you see that our guiding principles and goals are similar to yours, then we do hope you will get in touch.

Ethics forms the foundation of the chartered accountancy profession, and it is what holds us accountable for our actions and behaviour at all times. Burns Acutt understands the importance of treating all people with the utmost respect, be they potential, existing, or even former clients.

Word of mouth, reputation and perspective are built on what people think and say. We try and have these natural concomitants as positive reflections of who we are, what we do, and how we do it.

Client information is always handled with the highest degree of confidentiality and professionalism. Burns Acutt prides itself in consistently producing work that is both accurate and innovative. We are dedicated to keeping up-to-date with current industry developments, legislation and technology to maximise the benefit of our clients.

Burns Acutt embodies uncompromising integrity and continued excellence. We focus on maintaining meaningful professional and business relationships, and believe discussions should be straightforward and honest. We have the courage to tell you the things you need to know, to protect you from the outcomes you wish to avoid.

The corporate culture at Burns Acutt is one of knowledge-sharing, mentoring, nurturing and positivity among employees. Burns Acutt employees are encouraged to maintain a healthy work/life balance so as not to compromise their level of service.

As you can see, the parallels between medical professionals and accountants are quite significant. Wouldn't it be reassuring, don't you think, to know your tax is being handled by someone who has the same sense of responsibility and accountability as you do, as well having your best interests in mind?

In closing, I would like to leave you with a meaningful and thought-provoking quote by Luca Pacioli (widely considered to be The Father of Accounting), which artfully weaves together geometry and biology.

"The Ancients, having taken into consideration the rigorous construction of the human body, elaborated all their works, as especially their holy temples, according to these proportions; for they found here the two principal figures without which no project is possible: the perfection of the circle, the principle of all regular bodies, and the equilateral square."

From the book De divina proportione

To us, this brilliantly reiterates the importance of collaboration, and how working together towards a mutual goal is integral to creating something meaningful.

We are confident with our strong network of support and experience that we will be able to collaborate with you to achieve your financial goals

Click here if you would like to set up an initial conversation.

By Bradley Woolridge
Director at Burns Acutt

BURNS ACUTT
FINANCE, ACCOUNTING & TAX

Tel: (031) 563 8237
Fax: (031) 564 8736

Email: info@burnsacutt.co.za
Website: www.burnsacutt.co.za

PO Box 35084, Northway, 4065

27 Canford Park, 53 Anthony Road, Durban North, 4051

8B Amber Block, Abrey Eco Park, 5 Abrey Road, Kloof, 3610