3 steps to avoiding potholes on your COVID-19 road to recovery

Both federal and state leaders have said that it is likely to be a bumpy road to the new normal on the other side of COVID-19.

It may appear that the worst is behind us and the main uncertainty is not whether the virus will rise again but when and the extent of its impact. JobKeeper, Cash Boost and other initiatives have been essential in assisting most dental practices to weather the storm. Now with the Federal Budget Initiatives known, it is imperative that all dental surgeries plan their road to recovery.

1. Understand the new rules

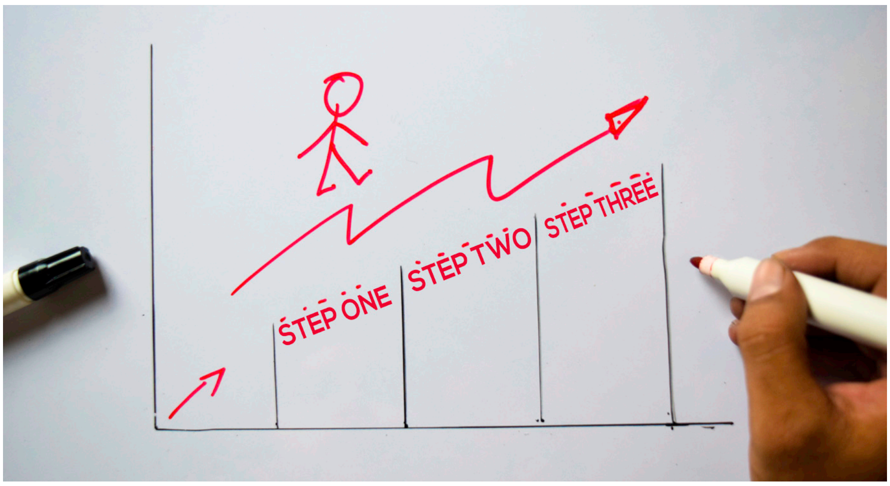
The Federal Budget Initiatives have been legislated with the main benefit to dental surgeries being the immediate asset write off (tax deduction). The write-off applies differently depending on the size of the business. Dental surgeries with gross patient fees below $10 million can claim a 100 per cent tax deduction for any depreciable asset purchased and installed after Budget Night (7:30pm Tuesday 6 October 2020). There is no dollar-value limit (i.e. can be over $150,000), and the asset can be new or used. Any assets purchased before Budget Night that have not already been fully written off can now have the balance of their value claimed in the current financial year. These measures apply up until 30 June 2022.

Where dentists are doing more than just purchasing individual assets and intending to do a partial surgery renovation, they should check to identify which parts of the renovation will qualify as depreciable assets and which parts are considered part of the building (e.g. removal or construction of internal walls), as these will not qualify for the 100 per cent write-off. All dentists should be cautious of overspending on assets by ensuring that they are necessary and will contribute to the future profitable operations of the business. Now is also the best time to consider what changes should be made to the surgery to ensure it can operate in a COVID-19-safe manner. Obvious examples are to review the steri room and the waiting room/reception area to ensure adequate space between waiting patients.

The Federal Budget also brought forward proposed tax cuts, which are backdated to 1 July 2020. Mid-level income earners will benefit the most, with those earning above $100,000 saving between $2445 and $2745. High-income earners will also benefit, and those earning around $150,000 will be paying an effective tax rate of less than 30 per cent, which means dentists may need to reconsider the use of a company that has a current tax rate between 27.5 per cent and 30 per cent. The use of companies brings additional costs, compliance measures and administration that need to be weighed up against any potential tax saving.

The following 'new rules' are also worthy of note:

- If you operate your dental practice through a company and you have a loss in either 2020, 2021 or 2022, you can offset/bring forward that loss and have it deducted against profits in 2019 or later. The loss offset means you get a refund of tax that you paid in your profitable year.
- State Government Grants received after 13 September 2020 and before 30 June 2021 are non-taxable. (Grants received prior to 13 September 2020 are still taxable.)
- There is an apprenticeship wage subsidy for new and recommencing apprentices/trainees engaged between 5 October 2020 and 30 September 2021. Subsidy is 50 per cent of wage up to $7000 per quarter.
- There is a JobMaker hiring credit that applies from 7 October 2020 ($200p/w <29 years and $100p/w 30–35 years). Note that employers DO NOT need to the pass 30 per cent decline in turnover test.



Top: MW Partners Principal Albert Gigl

- Access to up to $10,000 from your superannuation fund is still available to 31 December 2020.

2. Know your numbers

All dental surgeries and most ABN contracting dentists became well aware of targeted numbers that they needed to be eligible for government incentive payments such as JobKeeper, Cash Boost and State Government Grants. This highlights the fact that all businesses in good times and bad need to be across their basic numbers. In my opinion, it is inexcusable for a business owner to not know how much their payroll costs are or the amount of weekly production required to meet fixed overhead expenses. Now is the time to have your practice benchmarked or at the very least ensure you understand the amount of revenue required to continue operating successfully. Knowing your numbers is less about improving the dental practice and more about not panicking when the next crisis hits.

3. Make a plan

The first step is to decide what you believe will be your new operating environment for 2021. Most business owners do not take this first step because they believe it is impossible to predict the future (especially true in COVID-19 times). The ones who do take this first step do it on the understanding that their plan will be wrong, but at least with a plan they are able to identify when things are going off course and take appropriate action to adjust their business to the current circumstances. Your 12-month business plan should show your expected revenues and budgeted expenses. It does not need to be extensively detailed, but it does need to be in writing.

MW Partners specialises in providing strategic tax advice to dentists and dental practice owners. If you are unsure whether you have correctly claimed for any stimulus package payments or are concerned about the future viability of your practice, you can contact our office on 8825 5400 for a free consultation.

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