

Facing the post-graduate challenge

Every new graduate is faced with numerous crucial decisions when he or she waves goodbye to the halcyon days of student life.

Probably the greatest challenge is the puzzle posed by financial independence. While most graduates step from behind the sheltering walls of college into the protective structure of a well-established company, the medical student not contemplating a hospital career is faced with the task of joining a small practice or alternatively setting up his own.

As any doctor will admit, diagnosis and prognosis should be left to the experts and when it comes to tax assessments, appropriate financing methods and the maintenance of a viable cash flow, they should be left to a finance company whose staff is specifically trained to solve financing problems.

'Running a practice is much the same as running a business,' says Ron Rundle, managing director of Nedfin, one of South Africa's largest general banks. 'But while most company directors will have served a thorough commercial apprenticeship, the new doctor is faced with a career replete with monetary decisions for which his professional training has given him no qualification.'

The prospective practitioner immediately falls prey to two major problems that hinder the foundation of a successful practice: firstly, the time needed to understand, analyse and decide on a correct financial programme and secondly the accessibility of reliable and unbiased advice.

'Practically, there are two necessities without which a new practice cannot hope to get off the ground,' asserts Mr Rundle, 'a car, to visit patients, and the best medical equipment with which to treat them. Obviously the capital outlay needed to purchase these items is usually far beyond the means of a new doctor and that's where he requires professional advice to make his way through the vast array of financial plans on the market.'

Financing

While finance houses give their own financing plans individual branding, financ-



What the well-heeled doctor will be driving this year. A good status builder and tax deduction, but can the new graduate really afford such luxuries?

ing methods at the disposal of professional men, according to Mr Rundle, can be condensed into three basic types: bank overdraft, suspensive sale and leasing. Each one has its own specific uses and limitations.

'Bank overdraft is really a bridging tool,' says Mr Rundle. 'It is used to cover short-term loans and can be recalled by the bank at any time. As a result it is totally unsuitable for the purchase of cars and equipment that have a service life of several years. For the new doctor setting up a practice, the bank overdraft should be immediately discounted.'

It follows that a newly-qualified physician should be concerned with medium-term credit facilities — suspensive sale and leasing. 'Suspensive sale is a form of instalment credit and is a less restrictive form of hire purchase,' says Mr Rundle. 'Upon expiry of the contract, sole ownership of the item whose 'sale' has been 'suspended' passes to the buyer. As far as vehicles are concerned they have the unfortunate tendency of growing old and ownership can be a liability rather than an asset — and that rules out suspensive sale.'

Asset

Leasing is ideally suited to the financing of vehicles and is much in demand. By definition the leased object never becomes the property of the lessee. It allows him the use of an asset to the benefit of his occupation.

'And because the car is leased to generate income, the rental fees are tax deductible,' explains Mr Rundle.

But the greatest advantage of leasing is its flexibility. The contract period can be extended or shortened, subject to a minimum term of one year, and payments can be individually agreed to suit the pocket of the lessee. Nevertheless, because of its popularity among the professional classes,

leasing has become the target of many banks and finance houses claiming to specialise in financial packages for doctors.

'Consequently, the client is tempted to go for the scheme that is simplest to understand,' says Mr Rundle, 'which can lead to embarrassing financial commitments should it prove unsuitable. The importance of consulting a reputable bank or finance house with sound experience in motor vehicles finance and which understands the needs of the medical profession cannot be stressed enough.'

But before a new doctor, or anyone for that matter, begins to investigate leasing possibilities, there is one question that immediately springs to mind — how do I know if I qualify for a car lease?

Criteria

'The qualifying criteria are clear-cut from both the bank and taxman's point of view,' notes Mr Rundle. 'The vehicle must be used by the lessee in the course of his work and must be vital to his professional life. A doctor necessarily qualifies on both counts.'

The inherent attributes of medical equipment alter the suitability of financing methods. Such equipment is invariably expensive, specialised in design and has a significant service life. As a result, it makes sense to gain ownership.

'That brings the obvious solution of a suspensive sale agreement into play,' says Mr Rundle. 'When the repayment period has expired, ownership passes to the purchaser who can claim wear and tear depreciation against tax. And as the equipment will be in full use long after the contract has expired, the physician will have gained a valuable and vital asset.'

Nevertheless, the expense of equipment makes the repayments proportionately high. The new doctor has neither the capital nor the income to support the payments required at the outset of the contract. For this

reason, both leasing and suspensive sale agreements can be structured to match the doctor's expected income flow.

'There are two basic types of repayment arrangements,' says Mr Rundle, 'one which allows for reimbursement of the loan in amounts which vary over the contract period and the other where the instalment amounts are set at the outset of the contract and the residual amount is paid in a lump sum at expiry. Both methods incorporate initial periods where no payments are made.'

Progress

However, there are occasions when a lease arrangement is more appropriate to funding the purchase of medical equipment: firstly where the pace of progress quickly renders equipment obsolete, and secondly where a practice is undergoing a personnel change.

'In such a case, where a new doctor replaces a retiring one, the old lease can be cancelled and the lessees paid out,' explains Mr Rundle. 'The lease can then be rewritten to take in the new lessee, avoiding the need for any capital injection on his part.'

It cannot be denied that the medical profession is an important market to banks and finance houses, based on the expectation of wealth rather than any hope of immediate repayment. And because it is such an important market it demands specialist attention and knowledge.

'A doctor deals with the realities of life and a professional finance house also deals with an integral part of that reality—money' asserts Mr Rundle. 'If a doctor is to perform his job to the greater benefit of society, he must be freed from the worries of personal finance — sound leasing and/or sale suspensive arrangements are the perfect prescription — and they don't leave a bitter taste or have any disturbing side effects.'

Hardly the kind of car the newly qualified doctor would like to be seen in, but the writer suggests that a down-market vehicle may be just the medicine for financial head-aches in the first years of practice.

