



Tackling taxing issues

In these challenging economic times, it makes sense for pharmacy owners to ensure they are not paying more tax than absolutely necessary. **Umesh Modi** and **Pamini Jatheeskumar** share useful tips and advice

IT IS MORE important than ever that pharmacy owners run their business as tax efficiently as possible. A good accountant is essential, and a few fairly straightforward measures can make significant savings.

Travel and subsistence

Costs incurred when you make a journey from the pharmacy on a business-related matter are tax deductible. All of the following costs can be deducted against your business profits:

- Air, train, bus, taxi fares, parking, congestion charge and tolls
- Subsistence expenses, eg, lunch while out and hotel accommodation and meals
- Mileage using your own vehicle.

Use of home as office

If you have an office area in your home you can claim a modest amount that can be justified to HMRC as a tax-deductible expense. For minor use, eg, just filling in expense claims or raising monthly invoices, the HMRC guideline example is a figure of £2-3.00 per week. This amount can be reimbursed by the company and will reduce the company tax bill.

Business gifts

Consider making greater use of business gifts as a marketing tool. The cost of business gifts is tax deductible for the business if the gift:

- Contains a conspicuous advert for your business
- Is NOT food, drink, tobacco, or tokens or vouchers exchangeable for goods
- Does not amount to more than £50 per person per year.

Annual investment allowance (AIA)

A shop refit, buying a new computer or investing in any other business equipment will reduce your tax bill. A full tax relief on expenditure up to £500,000 is available on most business plant and machinery until 31 December,

2015. £10,000 spent by a company will reduce the tax bill by £2,000. A sole trader could get a tax relief of up to £4,500.

Utilise family tax allowances

If your spouse, children or other relatives aren't using their personal tax allowance (currently £10,000), there may be legitimate ways of ensuring this is maximised. For example, children can legally work from the age of 13, which means that children and other relatives are eligible to carry out basic tasks for your business. However, these activities must be relevant and justifiable. There are also ways of splitting assets to reduce the tax rate on the income.

If you have children over 18 with skills that are useful to the business they can be paid as an employee and draw a salary from the business. For example, they may be able to help with design work, IT, website administration



Common mistakes and incorrect assumptions

- Trading as a sole trader or a partnership when an alternative structure such as a limited company might be a better option.
- Drawing out too much money from the company without realising the tax consequences. Salary and dividend planning may save tax.
- Not appointing spouse as a director and shareholder to optimise the total tax allowances between the couple.
- Not seeking professional advice at a very early stage of a transaction. For example, buying properties through the pharmacy company without considering alternatives or tax consequences.
- Appointing professional advisors that are cheap or unqualified in their field.
- Not filing VAT or tax returns on time on the assumption that no penalties will arise.
- Using incorrect VAT scheme and so losing out on the VAT refund.
- Buying cars through the company without realising the tax consequences and then omitting to submit P11D benefit-in-kind form to HMRC.
- Forgetting to report buy-to-let income because of the losses. However, those losses could be carried forward to be claimed in the future years. In any event, all sources of income must be reported to HMRC whether it generates a profit or a loss.
- Forgetting to tax plan before the tax year-end date by putting money into a pension plan, invest in ISAs or Enterprise Investment Scheme (EIS), etc. The tax benefits could be significant.
- Timing the disposal such that capital gains falls into next tax year.

or creating business apps. This can also be a good way of funding university costs, rather than from your own income, taxed at up to 45 per cent.

Company pensions

The company can make pension contributions on behalf of the directors and employees. A maximum annual payment of £40,000 into a pension fund would save £8,000 in tax.

What to look for in a good accountant

Having good advisors on board can make a huge difference to any business. Some community pharmacists appoint friends or family as their accountant, irrespective of their experience or expertise. Some appoint an unqualified or apparently 'cheap' accountant. An accountant is a crucial advisor for the pharmacy business, and pharmacists should be mindful when engaging their services. Choosing the wrong accountant or ignoring the need for a pharmacy specialist accountant can turn out to be a very costly error.

A good accountant should:

- Be qualified and chartered or certified
- Be part of a firm with the length and breadth of people resources to deal with many complexities
- Have a good reputation in the market place
- Understand your business
- Act for many similar businesses
- Happy to provide references or testimonials from existing clients
- Be proactive
- Have clients' interests at the heart of everything the firm does
- Offer fees that are competitive and commensurate with the work
- Offer a full range of services to include audit, accounts, VAT, tax, tax planning, financial services, etc.

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For a husband and wife company this amounts to £16,000 in tax saving.

Dividends

Paying a low salary topped up with dividends is an effective method for remunerating pharmacy business owners. For the tax year 14/15, the optimum salary for a director/shareholder is £10,000. The maximum amount of dividends payable without incurring any personal tax is £28,678 net (assuming no other income). Dividends are favourable because they do not attract National Insurance and are taxed at a much lower rate than self-employment income.

Share structure

If you have more than one director or shareholder the way the dividends are voted could be changed to minimise the tax liability. The way to do this is to reclassify the shares into

alphabet shares. This will allow you to vote dividends on either class as you see fit to reduce the tax liability of the director/shareholder. The rates and voting rights must be set and agreed upon in the memorandum of articles but may be changed at any time if all are in agreement. ●

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Further information

This article is based on current legislation and practice and is for guidance only. Specific professional advice should be taken before acting on matters mentioned here. For further information, please contact Umesh Modi or Pamini Jatheeskumar on 020 7383 3200.

Case study 1: Incorporation of a sole trader

This community pharmacist traded as a sole trader for many years. We concluded that he would be better off trading through a limited company.

	Ltd company	Sole trader
Accounting period	Year end 31.3.14	Year end 31.3.14
	£	£
Adjusted profit before tax	137,392	137,392
Less : Director's salary	9,440	Nil
Less : Employer NIC	240	Nil
Taxable profit	127,712	137,392
Corporation tax @ 20 per cent	25,542	
Personal tax & NIC		48,555
Tax savings for the year - £23,013		

Case study 2: Tax savings on pension contribution

This is a husband and wife pharmacy company. They did not make any pension contributions in the preceding years. By utilising the carry forward allowances, we were able to achieve a significant tax saving.

	Ltd company	Sole trader
Accounting period	Year end 31.8.2014	Year end 31.8.2014
Before and after pension deductions	£	£
Adjusted profit before tax	375,175	375,175
Less: Directors' pension deductions	(300,000)	Nil
Profit before corporation tax @20 per cent	75,175	375,175
Corporation tax liability (after pension contribution)	15,035	
Corporation tax liability (before pension contribution)		75,035
Tax savings for the year - £60,000		