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 Jathesekumar share useful tips and advice.

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, 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.

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.

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 charted 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
- 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.
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.

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.