

Pharmacy Matters

Guiding your pharmacy to lifelong prosperity

Budget 2011 Special Opportunities To Save Tax and Key Announcements

In this release, we give you a few thoughts on some opportunities to save tax and consider some of the key announcements from the Budget of 23 March 2011 as they affect you and your pharmacy.

Corporation tax - reduced rates!

The Chancellor confirmed the planned 1% reduction in the rate of corporation tax for small companies (typically those with taxable profits of £300,000 or less), taking the rate down to 20% with effect from 1 April 2011.

A pleasant surprise was the extra 1% cut announced in the main rate of corporation tax (which typically applies to those companies with taxable profits of £1.5m or more) in addition to the already promised 1% reduction, with further 1% reductions planned over the next few years. This means that the main rate of corporation tax is 26% from 1 April 2011 coming down to 23% with effect from 1 April 2014.

Those companies with taxable profits of between £300,000 and £1.5m will typically pay corporation tax at a rate between the small companies and main corporation tax rates.

Opportunity - consider incorporation

The reduction in corporation tax rates makes the use of a company more attractive. If you are trading as a sole trader, partnership or LLP, you should review your structure to identify whether the use of a company can benefit you. This could be complete incorporation or using a company alongside your existing structure.

The 50% income tax rate is staying - for now

The Chancellor was keen to stress that the 50% tax rate for incomes over £150,000 is still intended to be temporary. However, he was unable to suggest when it will be removed.

Opportunity - review your pharmacy structure

This high rate of personal tax is in stark contrast to the reducing rates of corporation tax - it would be worthwhile reviewing your business structure as using a company may be attractive for your pharmacy.

National insurance - changes

The rate of employer's national insurance increased as planned from 12.8% to 13.8%, with effect from 6 April 2011.

Opportunities - mitigate where possible

Whilst this increase is not a welcome one, there is some good news in that the threshold over which employer's national insurance has to be paid in respect of each employee is also increasing (see below).

There are also still opportunities to mitigate the national insurance burden by offering your

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employees tax efficient benefits in lieu of salary, for example through:

- Providing a mobile phone (where the contract is in the name of the employer);
- Childcare vouchers;
- Pension payments;
- Bike to work scheme.

Entrepreneurs' relief - doubling of the limit!

The entrepreneurs' relief limit has, for the third successive Budget, been increased (with effect from 6 April 2011) to a £10m lifetime limit from the previous £5m.

This means that business owners pay a reduced rate of 10% capital gains tax on the first £10m of qualifying gains, arising for example from the sale of their pharmacy.

Opportunity - ensure you qualify where possible

Qualification for entrepreneurs' relief depends on certain conditions. Ensuring your assets qualify therefore requires careful planning. Take advice early if you are selling your pharmacy, property or other assets.

Annual investment allowance - changes afoot

If a pharmacy buys qualifying equipment either outright or via, say hire purchase, a bank or other loan, 100% tax relief is currently available in the year of purchase on the cost price for the first £100,000 (excluding VAT) of expenditure each year, in the form of the 'Annual Investment Allowance' or 'AIA'.

It has been confirmed that this allowance will still be reduced as planned to £25,000 from 1 April 2012 for companies and 6 April 2012 for unincorporated businesses.

For accounting periods spanning April 2012, the AIA will be pro-rated accordingly. For example, a company with a year end of 31 July 2012 will be entitled to an AIA of £75,000 for this period.

Opportunities - maximising the tax benefit by carefully timing the purchase of equipment

If your pharmacy is considering buying equipment in the next few years, it may be worth bringing the expenditure forward.

If you are planning on spending a significant amount on equipment, then it may also be beneficial to stagger the expenditure either side of your year end to ensure that you do not exceed the £100,000 in one year and also not utilise it as much as may be possible in the next.

Clearly there are likely to be other factors such as cash flow that should also be considered when planning such purchases.

You should also be aware that the AIA does not apply where equipment is leased, although tax relief can be available in other ways. There are also different rules for cars.

Personal allowances - are on the up and so too are the national insurance thresholds!

The point at which income tax starts to be paid rose from £6,475 to £7,475 per annum from 6 April 2011.

The Chancellor also announced that the personal allowance will rise further to £8,105 per annum from 6 April 2012.

The level at which national insurance starts being paid by employed staff also increased from £5,715 to £7,225 per annum, with effect from 6 April 2011.

The level at which as an employer you are required to start paying employer's national insurance for each employee also increased from £5,715 to £7,072 per annum.

Opportunity - review your salary level

If you are an owner of a limited company and are currently benefiting from paying no income tax or national insurance on your salary as it is paid at the national insurance threshold level, then you should review whether it should be increased in line with the higher employer's national insurance threshold.

This would equate to a salary of £589.33 per month.

Approved mileage allowance payments

From 6 April 2011 the rate of Approved Mileage Allowance Payments for employees who use their private cars and vans for business mileage increased from 40p per mile

to 45p per mile for the first 10,000 business miles in the tax year. The rate after 10,000 miles will remain at 25p per mile.

In addition, the allowance for passenger payments currently in place for employees at 5p per passenger mile has been extended to volunteers.

Opportunities

As an employer you are under no obligation to reimburse employees at the new higher rate, although this may well be an area that your staff will watch with anticipation!

If you were to reimburse business mileage at a lower rate, then your employees are able to make a claim to H M Revenue & Customs for an income tax rebate.

As an employer, your pharmacy will continue to benefit from being able to treat the payments made as tax allowable deductions against profit.



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