Spring 2012

Health & Care Focus

A helping hand for lifelong prosperity

Contents:

HAZLEWOODS

DRIVING LIFELONG PROSPERITY

Where will fees go in 2012?

Benchmarking - A regional perspective

Hazlewoods has been asked to work with both the Gloucestershire Care Providers Association and the West Midlands Care Association, in order to assist their members in benchmarking their performance against other providers.

Whilst we hope that this exercise will be useful for operators, to see how they are performing against their piers in the same sector and with the same funding authorities, we also envisage the data being used for pricing negotiations with Local Authorities.

If you wish to be involved in the wider benchmarking process, or operate within the regional areas but have not heard about the benchmarking work that is being undertaken, please do not hesitate to contact us.

Judicial reviews - An update

There have been a number of judicial reviews in the past 12 months, which in the main have been in relation to the setting of fees in the elderly residential sector. Judicial reviews have not arisen yet in the specialist care, children's care and fostering services sector.

Hazlewoods were recently involved with leading social care solicitor, Alison Castrey, in the second judicial review involving Pembrokeshire. In this case, the fee that had been set following the original judicial review, was challenged again.

Hazlewoods provided expert witness advice to the High Court in Cardiff in support of the claim that the Authority had not paid full attention to the underlying information available to them.

For further details go to www.hazlewoods.co.uk/news/J-R.aspx , or give a member of the team a call.

Where is the market heading?

Although it is still fairly early in the fee setting season, the anecdotal evidence is that following last year's cuts, we might be heading for zero or very small increases in 2012.

We note from clients, that some framework agreements allow for annual reviews of pricing. We have seen both increases and decreases where original pricing calculations were considered to be incorrect.

If you require assistance, or a review of your pricing and how to justify changes and the effects on your business, both in terms of income generation and overall value, then a member of our team can help.

Cost and tax savings

We have been working with clients in recent months to try and save money, both in terms of operational cost and structuring, to minimise tax. Areas which may be relevant to you and your business, include:

- Light, heat and other operational overheads;
- Ensuring that you are obtaining the correct level of capital allowances and enhanced capital allowances (which are different);
- Reviewing the structure of the business, to ensure that you are making the most of available tax reliefs;
- Reviewing remuneration strategies, to ensure that you pay as little tax as possible.
- Planning for future exits, to ensure that the Entrepreneurs' Relief available to you is utilised; and
- Benchmarking performance against others to identify opportunities.

For a no obligation discussion of how we can help in all of these areas and others, please contact a member of the team

Top 10 personal tax planning tips for 2011/12 - can we help?

For many people this time of year is when they want to forget all about tax, other than maybe promising themselves that they will submit their tax return earlier next year.

But, a review before the end of the tax year, is exactly when you should be taking a step back and thinking about your tax position. Action taken now may mean future (or current year) tax payments are significantly smaller than would otherwise be the case.

Although many planning ideas are simple, others are more complex and require time and consideration before implementation, so it is never too early to start thinking about them.

Tax planning includes making sure you take full advantage of the allowances and exemptions offered by the Government.

This year's top ten

1 Married couples* should use both personal allowances and basic rate bands

For the year ending 5 April 2012 all individuals with income of £100,000 or less are entitled to a personal allowance of at least £7,475. Married couples should make use of both spouses' allowances. If one spouse has not used their allowance but the other has, the couple should consider transferring income-earning assets to the spouse with the lower income.

The same idea applies to the basic rate band, which for the year ending 5 April 2012 is £35,000. So again make sure that, where possible, both spouses' basic rate bands are used before either spouse starts paying tax at the higher rate of 40%.

2 If your taxable income is over £100,000 minimise your exposure to the 50% (and 60%) tax rate

If your income is between £100,000 and £114,950 your effective tax rate might be as high as 60% because of the restriction in your personal allowance.

Planning could include:

- Reducing your taxable income by making pension contributions or gift aid payments to charity.
- Defer income such as dividends from 2011/12 to 2012/13 or, in a business, accelerate expenditure such as buying capital equipment from 2012/13 to 2011/12. You need to consider the impact on future tax bills and be aware of the anti-avoidance legislation.
- Planning your overall income in conjunction with your spouse.
- When looking at investments, think about maximising capital growth which will be taxed at a maximum CGT rate of 28%.

3 Sole traders and partnerships should use the full annual investment allowance of £100,000

An Annual Investment Allowance of 100% of the first £100,000 of expenditure on plant and machinery (excluding cars) is available until 5 April 2012 (31 March 2012 for companies). All businesses should, where possible, plan capital expenditure to ensure the maximum benefit is obtained from this allowance before it reduces to a maximum of £25,000 from 6 April 2012 (1 April 2012 for companies).

Where you have an accounting date that spans the date of the change you need to be careful because the pro-rating of the allowance can be tricky.

4 Plan for your retirement

In the last few years there have been many changes made to pension tax relief and more changes will apply from 6 April 2012. You should speak to your financial adviser to ensure you understand the changes and maximise your benefits, as there have been changes that mean more relief is available at the moment.

5 Use your CGT annual allowance

For the year ending on 6 April 2012 all individuals have a CGT annual exemption of £10,600 so you should try and use it, if possible.

We have a number of tax planning ideas which may be available to you.

6 Consider Entrepreneurs' Relief

If you are likely to sell your business, or interests in a business, in the next 12 - 24 months you should speak to us to ensure that you qualify for Entrepreneurs' Relief. This relief can save you up to £1.8 million of tax but the rules are stringent so they must be considered at least 12 months in advance of a sale.

7 Make tax free investments

- Consider utilising your annual ISA allowance, which is £10,680 for 2011/12.
- Up to £3,600 can be invested into a child trust fund for 2011/12.
- If you have a child under 18 who does not have a child trust fund you could invest up to £3,600 in a new Junior ISA.

8 Make use of your Inheritance Tax exemptions

Take advantage of the annual gift exemption of £3,000 where possible. If you have not made use of the exemption in one year, it can be carried forward and used the next year. The exemption can be offset against a larger gift, or used to cover several smaller gifts. Certain other small gifts, some gifts on the occasion of marriage and gifts to charitable and political organisations are also exempt.

9 Make the most of the Furnished Holiday Letting rules before they change

If you have a furnished holiday home that you let out, either in the UK or EEA, take advantage of the more generous Furnished Holiday Letting (FHL) rules before they change on 6 April 2012.

10 Tell HMRC about any undeclared income before they catch you

HMRC has more powers than ever to obtain information about taxpayers and more sophisticated tools to interrogate the information obtained. Given the extra resources HMRC are putting into tackling tax avoidance and evasion, we expect pressure to continue to mount on those who have underpaid tax.

If you have undeclared income or capital gains from any year you should speak to your tax adviser to discuss the best way to proceed, to minimise any interest and penalties that may arise.

We specialise in this type of planning. If you would like more details before the tax year end, please contact a member of the team on 01242 246670.

* references to married couples and spouses apply equally to civil partnerships and civil partners.

Care funding advice

One of the biggest concerns when considering care provision is funding, which many do not realise, is not provided free of charge. Whether it is residential or homecare, one way or another it has to be paid for.

An individual having less than the upper assets limit (£23,250 in England) should receive some financial help from their Local Authority, but will usually be expected to help contribute to fund care home fees.

If you have assets in excess of this level, funding is the responsibility of the individual, and with interest rates being so low, generating income is becoming increasingly difficult.

Investing for income

If you hold cash, a recommended route is investing for income.

The advantage is that an individual can retain ownership of their capital and pay fees from the income derived.

To structure this and realise the returns needed, careful planning and specialist advice is required, taking into account the investor's attitude to risk and aims for the future.

Care fees annuities

A possible alternative is to consider a care fee annuity.

For a single lump sum payment, this arrangement pays an agreed amount towards a person's care fees, thereby giving peace of mind and surety of returns.

For an extra cost, this can be index-linked to provide an element of protection against inflationary increases in costs.

Care fee annuities can differ considerably from one provider to another and it is important therefore to research the entire marketplace to ensure an individual receives best value for money.

Equity release

When considering home care, or if a remaining spouse continues to live at home, the sale of a main residence to fund care costs is not an option.

A possible solution may be to consider equity release.

Through equity release an individual (or couple) can release money from their home whilst continuing to live in it, until either the second party dies or moves into residential care.

The most popular route is a lifetime mortgage whereby a lump sum is released through a long term loan secured against the property, with any existing loans or mortgages secured against the property being cleared at that time.

No interest is payable throughout the loan term, with this accruing on a cumulative basis and being repayable with the original loan amount when the property is sold.

As equity release is a lifetime commitment, specialist advice should be sought to explain all the costs and risks involved. It can also reduce your estate for inheritance purposes and you should assess how it may affect your tax position and entitlement to any means tested benefits.

Hazlewoods' Financial Planning Team offer fully independent advice on all aspects of long term care fee planning and investment planning.

For more information please phone Stephen Dick on 01242 680000 or email stephen.dick@hazlewoods.co.uk

Payroll headache?

We understand the increasing administrative burden faced by all businesses. This includes the challenge of keeping up to date with constantly changing payroll legislation and regulations, which is a headache for all.

Employers in the Health and Social Care sector carry specific needs and our Payroll Team has extensive experience of providing specialist services and support to providers.

Our service is managed by qualified payroll professionals who work with our clients to provide a fast, efficient, reliable and confidential service. Our sector experience enables us to provide the flexibility required to cover multiple pay rates and different pay periods, alongside the rigid disciplines required by HMRC.

We would welcome the opportunity to be a part of your success. To arrange a no obligation informal discussion of your needs or to ask for a quotation please contact a member of the team.

Our payroll services include:

- All payroll calculations
- SSP and SMP
- Expenses payments
- Secure electronic data exchange
- Secure payslips
- E-payslips facility
- BACS payments facility (we are a registered bureau)
- E-filing of year end returns (P14, P35, and P60)
- P45s
- Management reports
- Payroll advisory service
- A dedicated team operating as an integral part of your business

Preventing PIID pitfalls

The submission deadline for this year's P11Ds of Friday 6 July 2012 probably seems like a long way off. However by leaving them until the last minute it can mean that errors slip in or you do not have time to check the correct treatment of the benefits you offer your employees.

This article looks at three common benefits provided to employees and points out the possible pitfalls.

Mobile Phones

Summary

Where an employee is provided with a mobile phone which is available for private use there will normally not be a tax charge.

Potential Pitfalls

A tax charge can arise if:

- The employer reimburses the employee costs incurred in respect of a privately owned mobile phone. This means the employer is reimbursing the employee's personal liability.
- The phone is owned by the employer but the contract has been made between the employee and the mobile phone company. Again this means the employer is reimbursing the employee's personal liability.
- The employee has the right to give up the phone for a higher salary.
- The exemption specifically applies to one phone, so if more than one is provided the second will be taxable.
- The exemption only applies to the employee so phones cannot be provided to family members tax free.

Telephones

Summary

Even with the wider use of mobiles phones it is still common for an employer to pay a proportion or all of a director or employee's home telephone costs.

Potential Pitfalls

It is important to ensure that the employer has entered into the contract with the telephone company, otherwise the employee will have to pay a class 1 National Insurance Charge. If the employee has entered into the contract with the telephone company it depends how the bills are paid as to how the benefit should be reported. If the employer pays the telephone company the costs should be reported on form P9D or P11D. If, alternatively, the employer pays the employee who then pays the telephone company the pay should be put through the payroll under PAYE.

If the employee is to claim a deduction for business calls, detailed records must be kept.

Generally no deduction is allowed in respect of rental costs. The only exception is where there is a genuine business need for a second telephone line at home and that line is used exclusively for business calls.

Rental Accommodation Provided to Employees

Summary

Where an employee is provided with rental accommodation by an employer, there may be a benefit in kind implication and also an implication for National Minimum Wage (NMW) calculations.

Potential Pitfalls

If the company provides accommodation for an employee, and charges a rent to the employee, the employer needs to be aware of the daily amount allowed under the NMW rules. Under the NMW, only the provision of accommodation is permitted as a benefit counting towards the NMW. This provision is the Accommodation Offset (AO) which as of October 2011 is currently £4.73 for each day (£33.11 per week) that accommodation is provided.

It makes no difference whether:

- The employer takes rent out of the employee's wages
- The employee has to pay rent to the employer after receiving their wages
- The employer simply provides the accommodation as part of a package

This area is a bit of a minefield and if you provide accommodation to staff we suggest a review should be performed if you haven't done it already!!

Expense Dispensation

If you do not have a dispensation with HMRC, then all costs whether paid on behalf of an employee (including directors) or reimbursed should be included on a P11D. Including all reimbursed business expenses (travel costs, car parking, hotels etc) can be time consuming and leave you open to making errors. We suggest an expense dispensation should be sought by all businesses.

Health & Care e-bulletins

We issue monthly bulletins to our clients and contacts covering a variety of topical healthcare issues and developments that you may be interested in.

If you would like to receive this update, or if you already receive it, but would prefer us to use a different email address, please contact Jenny Perkin on: jenny.perkin@hazlewoods.co.uk or 01242 246670

Company corner

Corporation Tax Rates	2010	2011	2012
Small Profits Rate	21%	20%	20%
Small Profits Rate can be claimed by qualifying companies with profits at a rate not exceeding	£300,000	£300,000	£300,000
Marginal Relief Lower Limit	£300,000	£300,000	£300,000
Marginal Relief Upper Limit	£1,500,000	£1,500,000	£1,500,000
Standard fraction	7/400	3/200	1/80
Main rate of Corporation Tax	28%	26%	25%

It is important to plan to ensure you do not fall into the marginal rate band (27.5% in 2011 and 26.25% in 2012) if you can avoid it.

Plan your capital expenditure carefully as the Annual Investment Allowance falls from £100,000 to £25,000 on 1 April 2012 and allowances fall from 20% to 18%.

Pensions

Employers will from between October 2012 and October 2017 be required to automatically enrol 'workers' into a pension scheme, with larger employers being obliged to adopt the new legislation at an earlier stage through to smaller employers at the latest stage.

Contributions will become payable on earnings over the National Insurance primary threshold (£7,228 in 2011/12). The minimum contribution levels will be phased in between October 2012 and October 2017 from 2% of qualifying earnings with at least 1% from the employer up to 8% of qualifying earnings, with at least 3% from the employer.

Our pensions team can help and you can plan this around your pay reviews as well!

Mileage Claims and Use of Home as Office

Directors and employees can claim a tax free amount of 45p per mile on business mileage* (such mileage can include travel between different care homes within a company or group of companies), provided that the employer allows this within its expenses policy.

Directors and other senior employees could claim a tax free amount of up to £10 per week for 'use of home as office', depending on the amount of work carried out at home and costs incurred as a result.

We can help you plan a remuneration strategy to save you tax overall.

* There are limits on how many miles.

Capital allowance rules on fixtures are changing

Review your position now so you don't miss out

The Government has issued draft legislation changing the process for claiming capital allowances on fixtures. If the legislation is enacted it will increase the compliance involved in commercial property transactions. These changes are especially relevant to the health and care sector, due to the significant investments in property.

If you own the freehold from which you trade, you should act now to improve your cash flow and to increase the value of the property for any future sale.

Under the capital allowance rules, where a company or business buys a property as a fixed asset, certain capital expenditure within the property will qualify for tax relief through the claiming of capital allowances. In particular, 'integral features' of a building qualify for capital allowances as fixtures. Integral features include electrical systems (including lighting systems), cold water systems, water heating systems and lifts.

If your business bought a used property on or after 1 April 2008 (6 April 2008 for unincorporated businesses) from a seller who had purchased it before 1 April 2008 (6 April 2008 for unincorporated businesses), the seller would not have been able to claim capital allowances on some integral features. This is because the term did not exist and, furthermore, not all assets which are now known as integral features initially qualified for capital allowances. This means that it is up to you as the purchaser to assess if there is any qualifying expenditure and make a claim.

From 1 April 2012 for companies (6 April 2012 for unincorporated businesses) purchasers of buildings will need evidence to show that the seller, where eligible, has already claimed capital allowances on fixtures before they can make a capital allowances claim on those same assets (subject to certain transitional provisions). It will no longer be possible to agree the value of fixtures qualifying for capital allowances after the date of sale without following an agreed formal procedure.

Act now

From April 2012 if you as a property owner have not properly identified fixtures qualifying for capital allowances any future owner may not be able to claim capital allowances.

Act now to identify fixtures eligible for capital allowances. This will enable you to claim the capital allowances you are entitled to and also increase the sale price of the property.

Please contact a member of the team to see if you could make a claim

VAT planning - can we review your affairs?

There is a common misconception that VAT is a "non event" to healthcare providers. The provision of healthcare / care home accommodation is exempt from VAT, meaning that, whilst there is no requirement to charge VAT on the services provided, there is also no entitlement to reclaim any VAT on related expenses. As such, VAT becomes an "accepted" element of the cost base and the cost of capital expenditure. Such a position is commonly accepted as being unavoidable.

Think again

Providers of healthcare and similar services can make real savings by managing their VAT cost base properly, even if they are not registered for VAT. Such savings can be achieved without the need for aggressive planning (with all the risks, reputational and otherwise, that such planning carries). VAT is never going to be eradicated as a cost, but there are areas where VAT may have been charged incorrectly or inappropriately. A review by one of our VAT team could well lead to VAT savings and therefore a reduction in costs/increase in profit!

We have in depth knowledge of this process and have conducted a number of reviews for clients. Typically we look at the nature of costs incurred and the use to which these costs have been (or will be) put. Once savings are identified, we can carry out all necessary negotiations with suppliers and / or the Tax Authorities in order to secure the maximum repayment.

We have in almost all cases found savings for our clients, both in relation to large "one off" projects as well as day to day expenditure. Errors can be corrected going back up to four years so a review now can produce significant savings.

If you would like to discuss the potential benefits of such a project for your business, please contact us.

Tax free £1,000 ! (or more)

For many years it has been possible to reward a long serving employee (more than 20 years service) with a gift up to the value of £1,000 (£50 per year of service) and provided that certain conditions are met, it is tax free in the employee's hands and tax deductible in the company's accounts.

There is no exclusion for directors in the legislation, although it would be sensible for a small salary to be in place otherwise it may be difficult to argue employment status. It should be noted that if you traded as a sole trader/partnership and then incorporated, the length of service as a director is the only relevant period when calculating the years of service - not the period that you were trading as a sole trader/partnership.

The gift cannot be cash or something that is easily convertible to cash (such as vouchers).

So if you have been a director for more than 20 years, maybe it is time for that new set of golf clubs or flat screen TV !

Call a member of the team for more details.

Time for a change?

Is your accountant:

- An award winning adviser in the Health and Social Care sector?
- Extremely well connected in the sector, recognised and respected by specialist bankers, lawyers and other professionals?
- Using a team of over twenty staff dedicated to working with health and social care providers?
- Used to working with health and social care businesses on a national basis?
- Proactive and constantly looking at ways to save tax for you and your business?
- Able to provide value for money advice and assistance in all areas of accounting, tax, finance and business life cycle - including business sales?

If your current accountant doesn't offer all of the above, please give a member of the team a call, we would be delighted to discuss your business with you to see if we can help.

Another successful year!

The team have had another exceptional year, with 43 acquisitions/disposals completed in 2011.

The audit, accounting and tax teams have also been busy working with existing and many new clients.

As a consequence, the team has continued to grow with the recruitment of additional staff.

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Our Health and Social Care Team are happy to discuss matters arising from this newsletter, as well as any other issues relating to your business or personal affairs.

The services we provide include:

- Accountancy and bookkeeping
- Taxation planning
- Management accounts
- Strategic planning
- Audit
- Raising finance
- Acquisition searches and advice
- Financial and taxation due diligence
- Confidential business disposals
- Sage advice and training
- Financial planning
- Payroll assistance to include bureau service
- Benchmarking and profitability advice
- Incorporation

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