Pharmacy Focus

GUIDING YOU TO LIFELONG PROSPERITY

Autumn 2015

SPOTLIGHT ON THE MARKET

2015 has seen high prices being paid for pharmacies. In this Focus we look at some of the key factors driving the market.

INSIDE

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Our assessment of the market

Pharmacy values continued to rise in 2015 with especially high premiums being paid for pharmacies located within in doctors' surgeries. There are a number of factors that have led to the rise.

- Lack of pharmacies coming to the market
- Removal of all but one of the exemptions for a new pharmacy application
- Difficulty in obtaining new pharmacy licences under the new regime
- Locum rates decreasing, which increases the demand for a pharmacist to own a pharmacy
- Funders (corporate and private) continue to look favourably on the pharmacy market, which has aided to the higher prices being achieved.

Local multiples and national pharmacy chains continue to dominate the ownership of the pharmacies in England, with 61% of pharmacies at March 2014 being held by contractors with six pharmacies or more.

We have seen independent pharmacies join together to bid for services in local areas. This gives independent pharmacies greater power when bidding for services through better organisation and providing greater flexibility.

There has been a continued increase in distance selling pharmacies with the number of pharmacies of this sort increasing from 56 in 2008 to 211 in 2014. We expect distance selling applications over the next few years to increase as this is the only exemption still available and also as a result of the drive towards electronic prescriptions.

ARE YOU PAYING TOO MUCH TAX?

The government have made significant changes to the tax regime in the two budgets this year and now is an ideal time to take stock and consider whether you are paying too much tax.

DIVIDEND TAX REFORM

In the Summer Budget 2015, the Chancellor announced that from April 2016 there will be a complete overhaul to the taxation of dividends. With the Conservative government committing to no rises in income tax, national insurance or VAT rises during their parliament term, they have instead chosen to target dividends to raise extra revenue.

Amongst those most likely to be affected will be owner managed pharmacies who, typically, take a small salary and large dividends to make up their remuneration package. Also, individuals with a portfolio of listed shares paying out dividends are also likely to see a rise in their tax bill from next year.

OUT WITH THE OLD...

Under the current regime, the effective rate of tax for dividends is 0% for basic rate taxpayers, 25% for higher rate taxpayers and 30.56% for additional rate tax payers. This takes into account a notional 10% dividend tax credit applied against the headline rates of 10%, 32.5% and 37.5% respectively. Under this regime it is currently possible to receive gross dividends of up to £42,385 (based on 2014/15 allowances and assuming no other taxable income) before being subject to income tax.

AND IN WITH THE NEW

From April 2016 the dividend tax credit will be abolished and all individuals will be able to receive £5,000 dividend income tax free, Under the new Dividend Allowance. HMRC have recently confirmed that this allowance will be taken into account when calculating taxable income and that it will still utilise the basic/higher rate bands.

The tax rates on dividends in excess of this amount will be 7.5% for basic rate tax payers, 32.5% for higher rate taxpayers and 38.1% for additional rate tax payers. Dividends will continue to be tax free in ISAs and pensions.

SALARY OR DIVIDENDS

Dividends should still be more tax efficient than paying a large salary although there will be an increased tax cost to the individual from next year.

For example, a director previously receiving a small salary of, say, £8,000 and dividends up to the basic rate band would not have been subject to income tax or national insurance. However, from April 2016, tax of approximately £2,000 would be due if that director was to continue to receive the same level of net cash.

SOLE TRADE OR INCORPORATION

With recent changes to the taxation of goodwill, the tax benefits associated with incorporating a business have reduced somewhat. When also factoring in the impact of the new dividends allowance, some people are asking whether this could be the final nail in the coffin for incorporation.

After running some initial calculations, and based on our understanding of the new rules, we have concluded that incorporation should not be discounted altogether by pharmacies; however, the potential tax benefits are likely to be increasingly marginal.

Incorporating a business should continue to be a viable way to save or defer tax, especially when profits are retained in the business to fund growth or to pay down any bank debt. Of course, other non-tax commercial factors should also be considered.

DO I NEED TO TAKE ANY ACTION NOW?

As the new regime will only affect dividends paid after 5 April 2016, and with detailed rules yet to be released, there should be no reason to alter your remuneration for the 2015/16 tax year. Before the start of the new tax year, however, you might want to give some consideration to the following:

- acceleration of dividend payments into the current tax year;
- a full review of your remuneration strategy for the 2016/17 tax year to determine whether your tax liability could be reduced by altering your existing approach;
- a review of your business operating structure.

CORPORATION TAX RATES

Corporation tax rates continue to fall, with rates set to reduce from 20% to 19% in 2017 and to 18% by 2020. Reducing the corporation tax rates can only be warmly received by pharmacies trading as companies. The reduction in rates, however, has to be seen in the context of the cost to the pharmacy of the new living wage, which could wipe out the benefit of reduced rates.

GOODWILL AMORTISATION RELIEF

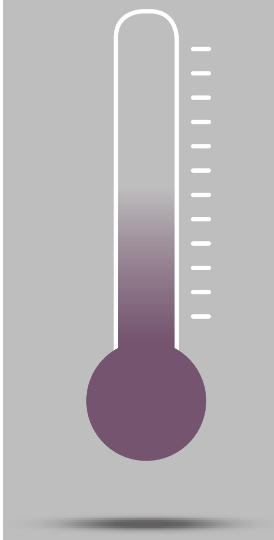
As part of a trade and assets acquisition of a pharmacy, companies could get corporation tax relief, as qualifying goodwill is written off to the profit and loss. This relief known as 'amortisation relief' was only available to companies and not sole traders and partnerships. Amortisation relief has no longer been available from 8 July 2015 for new acquisitions, removing the key tax benefit of acquiring trade and assets. Withdrawal of the relief is not retrospective and therefore goodwill acquired before this date will still receive relief in the normal way.

VAT ON PROMPT PAYMENT DISCOUNT TAX SPRING 2015

Changes to the rules on declaration and recovery of VAT on prompt payment discounts also came into effect in April 2015. Previously, suppliers could account for VAT on the discounted price even if, subsequently, the full amount was paid by the customer. From 1 April 2015 the VAT accounted for and paid must be based on the monies actually received by the supplier. These rules are already in effect from 1 May 2014 for supplies of broadcasting and telecommunications services.Going forward the supplier must detail the full price on their VAT invoice to the customer and the VAT based on that price. It should also show the discount rate offered for prompt payment and associated terms (e.g. timescale to receive the discount), as well as a statement that the customer can only recover the input VAT actually paid. If the invoice doesn't include these details then the supplier would need to issue a credit note for the discount element if subsequently taken up by the customer.

A summery Budget for some

The Summer Budget was greeted with a warm welcome by some but no doubt received a frosty reception from others. We look at the winners and losers from the announcements on a scale of 'what's hot and what's not'.



	KEY ANNOUNCEMENT	WINNERS AND LOSERS
Hot, Hot, Hot	Personal allowance increase to £11,000 in 2016/17	The personal allowance continues to increase and at a faster rate than promised in the March Budget. Nearly 300,000 working individuals will be left with a warm glow after this measure will take them out of the charge to income tax altogether.
	An exemption from IHT for many family homes	The hotly anticipated IHT exemption for family homes that are passed down to direct descendants (children and grandchildren etc.) will come in from April 2017. An additional allowance of up to £350,000 per couple will be given by 2020/21 with provisions also included protecting those wishing to down size.
Warm front	CT rates to reduce to 19% in 2017 and 18% by 2020 and Employment Allowance to increase to £3,000	Reducing corporation tax and employer NIC bills can only be warmly received by companies. The only slight reservation is whether the new National Living Wage could wipe out these benefits for some.
	Annual Investment Allowance (AIA) set at £200,000 from 1 January 2016	Good news for businesses - although lower than the current £500,000 AIA, it is much higher than the £25,000 originally announced and provides certainty by fixing it for at least the next five years. The timing of a winter spending spree on capital expenditure may still be key as transitional rules will apply.
Wintery Breeze	Accelerated CT payment dates for large companies	This announcement will rain on the parade of the bigger companies as tax payments will be accelerated where chargeable profits are greater than £20m.
	Reform of the taxation of dividends	The current tax credit will disappear into the sunset in favour of tax free dividends up to £5,000. The tax rates in excess of this will be 7.5% (basic rate), 32.5% (higher rate) and 38.1% (additional rate) from April 2016. There could be winners and losers here and it will be an essential consideration when looking at next year's remuneration strategy.
Chilly	Wear and Tear allowance withdrawn from April 2016	Landlords of furnished residential properties will be left feeling cold if they do not replace the furnishings of their rental properties on a regular basis. The 10% straight deduction of rental profits will be replaced with actual expenditure from April 2016.
	Restrictions to pension annual allowance from April 2016	There will be a chill in the air for additional rate taxpayers who will receive a reduced pension annual allowance tapered from £40,000 to as low as £10,000 for those with income over £210,000.
Freezing	No goodwill amortisation relief for companies on new acquisitions from 8 July 2015	A further blow against the benefits of incorporation, leaving sole traders and partnerships with a foggy outlook on the best structure to carry out their business.
	Restriction for landlords on tax relief for mortgage interest payments to basic rate tax	To be phased in from 2017 over a four year period but will be a lightning blow for higher rate taxpayers with mortgages on their rental properties.

The services that we offer include advice on the following:

- Accounting
- Taxation - compliance and planning
- Profit improvement advice
- Goodwill valuations
- Setting up a pharmacy
- Finance arranging
- Buying a pharmacy
- Business and financial plans
- Pharmacy sales
- Incorporation
- Outsourcing
  - Management Accounts
  - Payroll
  - VAT
  - Sage advice

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