



Vets Profits

We have just compiled the results of our 2007 vets profits survey. Key findings from the survey are as follows:

If you would like a free financial health check, including a review of the tax and financial position for your practice, and a comparison

of your figures to the averages within our survey please contact Martin Hall at our Penrith Office for an initial discussion. We aim to identify areas where your business is performing well, where savings could be made, tax liabilities minimised and practice profits enhanced.

	Average per partner / director	Average per veterinary surgeon
Turnover	£362,194	£150,914
Gross profit	£244,148	£101,728
Net profit	£69,900	£29,125
Gross profit %	67.4%	
Wages as % of turnover	28.2%	
Net profit %	19.3%	

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Tax Relief

How much can I really claim?

We are often asked by our veterinary clients how much they can claim for business use on various types of expenditure, including costs such as:

- Motor expenses
- Home telephone costs
- Wages to family members

We have started to see the Revenue target these areas when they raise enquiries into accounts and self-assessment tax returns. It is crucial that you can justify the amounts you claim for business use for these expenses and have adequate records to support the amounts claimed. The amounts that can be claimed on different types of expenditure can vary, depending on

whether your business operates as a partnership or as a limited company, and we have given some guidelines below

Motor Expenses

When you trade as a partnership you will normally claim all of your costs for running your cars through the business accounts. The amounts claimed will include the usual items such as fuel costs, insurance, road tax, repairs to the vehicle etc. We then disallow an appropriate proportion of these costs in respect of the private use element of using the cars. You are also entitled to claim capital allowances on the cost of your car. For expensive cars costing more than



By Bevan Osgood

Tax Partner

£12,000, you can claim tax relief to a maximum of £3,000 per annum and again, the capital allowances are restricted for the amount of private use.

By contrast, when you trade as a limited company, the directors and other employees will generally find it beneficial to claim HM Revenue & continued inside on page 2

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Customs approved mileage rates for the number of business miles travelled. The company will receive tax relief on the payments it makes to you, but the payments you receive are tax free in your hands if the approved rates are used. These rates allow for the payment of 40p per mile for the first 10,000 business miles per annum and 25p per mile for each business mile over 10,000 miles.

As a director in a limited company, it is usually preferable that you continue to own the car personally and you claim tax relief using these mileage rates. If the company owned the car and provided it to you for both business and private use this would generate a benefit in kind for the employee, and you would pay income tax on the amount of the benefit each year. The benefit is based on the list price and carbon

dioxide emissions of the vehicle, and can be very costly in terms of tax and national insurance costs.

Home Telephone Costs

It is possible to claim tax relief on any telephone calls that you make from home but which are for business purposes. The costs of line rental however will almost certainly be a private expense so no tax relief would be available on that cost. Ideally, you would keep a record of the number of business calls made so that the business percentage claimed is accurate.

Wages to family members

You will all have seen the issues in the press recently regarding wages being paid to family members (and nannies) by Members of Parliament. The general tax rule in this situation for you as employers is that to be able to claim tax relief on an amount for spouse

and family wages it is necessary to show that your spouse is involved in the business by providing services such as out of hours cover or secretarial services. Again, the salary claimed should be justifiable by taking into account the number of hours spent working for the business. The availability of tax relief on these expenses is the same regardless of whether your business trades as a partnership or as a limited company.

If you need any further advice on what you can claim in relation to the above items, or other expenses, and the amount of tax relief available please contact a member of our veterinary team.



New tax year - New allowances

Now that we are a couple of months into the current tax year it is worth pausing to reflect on how you can maximise your disposable income, take full advantage of tax free products available to you and minimise your taxation liabilities.

We all have numerous annual reliefs and allowances available to us, and listed below are a few points that you may wish to consider to help reduce the amount of tax that you pay to HM Revenue & Customs.

Maximise Your Tax Free Savings

□ Funds invested within an Individual Savings Account (ISA) are free from income tax and capital gains tax. The ISA limit was increased on 6 April 2008 so that you can now invest up to £7,200 per annum in stocks and shares (previously £7,000). The limit on what you can invest as cash within an ISA has been increased to £3,600 from £3,000.

□ Pension funds provide a tax efficient method of saving for

your retirement. All UK taxpayers can invest an amount equal to their Net Relevant Earnings (basically your salary or self employed profits) in a tax year and get tax relief on the payment that you make. Even if you have no Net Relevant Earnings you are allowed to invest up to £3,600 per year into a pension fund. This could be a useful way to set aside a nest egg on behalf of your children or grandchildren, because for every £80 that you pay the government will add a further £20. The money will then grow totally free of tax. Additionally, higher rate taxpayers will be due a further 20% of tax relief on pension payments that they make into their own personal pensions.

□ For those looking to make more substantial pension

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contributions the annual limit on payments this year has been increased to £235,000 per person, and the lifetime contributions limit has been increased to £1,650,000.

□ The annual limit for investments into an Enterprise Investment Scheme (EIS) company has been increased from £400,000 to £500,000. In appropriate circumstances up to 38% tax relief will be available on investments into these companies (20% income tax relief, and 18% capital gains tax relief). An added benefit of investing in an EIS company is that if you sell the shares in the future and make a capital gain then as long as various qualifying conditions are met the gains will not suffer a charge to capital gains tax.

□ A Venture Capital Trust (VCT) is another type of investment vehicle which offers attractive tax breaks. The annual limit on investment where you can secure the tax breaks stands at £200,000.

If you invest in a VCT you receive a 30% tax credit against your income tax lia-



bility for the year, so if you choose to invest say £5,000 you would slice £1,500 off your tax liability for the year. An added benefit of subscribing for shares in a VCT is that any dividends that you receive are exempt from the charge to income tax.

□ Child Trust Funds are available to all children born after 1 August 2002 for whom child benefit is payable. The idea is that the amount invested on behalf of these children will grow tax free and then be available to them

as a lump sum when they reach 18 years of age. The Government makes the initial contribution to the fund of either £250, or in situations when the family income is under about £15,000 per annum they invest £500.

They will then add a further payment to the fund when the child reaches 7 years of age, and are considering making another payment when the child reaches secondary school age. Up to £1,200 per annum can be added to child trust funds by



family and friends of the child.

We would recommend that specific investment advice should be taken before investing into any of the products mentioned above. One of the independent financial advisers at our sister company Dodd Murray Ltd will be pleased to discuss these issues with you.

Annual Allowances

□ UK taxpayers have an annual income tax allowance, which has been set at £6,035 for the tax year commencing on 6 April 2008. Family members should consider structuring their financial affairs so that every person utilises this allowance. This could involve holding investments in the name of the spouses who pays tax at a lower rate, or possibly paying your spouse or children for the work that they do within your business.

□ The capital gains tax annual exemption has been set at £9,600 for the 2008/09 tax year. If you are considering selling an asset you should consider whether it would be beneficial for the asset to be owned jointly with your spouse so that two allowances are available. Care should however be taken to ensure that by transferring assets you do not lose out on any of the other capital taxes reliefs that may be available to you.

□ For inheritance tax purposes you are able to make gifts of up to £3,000 per tax year, with the amount of the gift then falling outside the value of your estate at death. In addition to this limit you can make smaller gifts of up to £250 per tax year to as many people as you wish. The Nil Rate band for Inheritance Tax on death has been increased to

£312,000 per person for the 2008/09 tax year. If the value of assets you own is above this amount then you should consider whether any tax planning can be done to help limit your exposure to this tax. We would also recommend that people should ensure that they have an up to date Will so that they can ensure that their assets pass to the people that they wish to receive them after their death.

□ For people working in specific trades or professions it is possible to make a claim for a Fixed Rate Expense Allowance. This is strictly for the upkeep of tools and special clothing, but it can be claimed by all taxpayers within specific groups. Examples of the rates for the 2008/09 tax year are £100 for agricultural workers, £140 for joiners, £60 for people in the food industry and £100 for nurses in the National Health

Service or Private Care Homes. The HM Revenue & Customs list of professions where amounts have been agreed nationally does not include people within the veterinary sector at the current time, but this does not necessarily prevent a claim being made, as long as you can provide evidence that expenditure has been incurred by you.

To illustrate the benefits, the basic rate of tax is currently 20% so an NHS nurse would be able to save £20 of tax in 2008/09 by making a claim. This is not a large amount, but if allowances have not been claimed in previous years you can go back and claim them for the last six years.

If you have any queries on the points mentioned above please do not hesitate to contact us.



New capital gains tax regime

The budget brought about the biggest changes to capital gains tax that have been seen for years, with the abolition of indexation allowance and taper relief, and the introduction of a flat rate of capital gains tax of 18%. Following consultation with HM Revenue and Customs they have also introduced a new relief for those selling their business, called Entrepreneurs Relief. This is available on the first £1million of capital gains made when selling a business, an interest in a business, or in appropriate circumstances your business assets.

In many cases people selling a business, or business assets will be worse off under the new rules, although



those selling non business assets will generally benefit from a lower tax liability on disposal. The new rules work as follows:

Business assets

Gains on sales of business assets are now treated the same as non-business assets, except when Entrepreneurs Relief applies. This relief exempts 4/9th of the gain from a charge to tax, subject to the lifetime limit of £1 million.

e.g. sale of goodwill on retirement for £200,000, bought for £100,000

Sales proceeds	£200,000
Less legal costs on sale	(£2,000)
Less: cost	(£100,000)
Gain	£98,000

Less: entrepreneurs' relief (4/9)	(£43,555)
	£54,445
Less annual exemption	(£9,600)
Taxable gain	£44,845

CGT @ 18% on £44,845	£8,072
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If you would like to discuss any aspect of capital gains tax please contact Rachel Lamb in our tax department.



Non business assets

e.g. sale of residential buy to let property bought for £100,000 and sold for £200,000:

Sales proceeds	£200,000
Less legal costs on sale	(£2,000)
Less: cost	(£100,000)
Gain	£98,000

Less annual exemption	(£9,600)
Taxable gain	£88,400

CGT @ 18% on £88,400	£15,912
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For non-business assets, the capital gains tax is generally lower under the new rules than the old rules.

Incorporation, property & Pensions

Dodd & Co have a growing reputation as specialist advisers to firms in the veterinary sector and were recently given the opportunity to contribute a number of articles for the Veterinary Business Journal. The issues we covered focused on taxation matters such as operating your practice through a limited company and the possibility of selling your premises to a self invested personal pension (SIPP).

Both of these options can provide large amounts of tax savings for your business and we would be happy to discuss the tax implications with you.

For example if you were to sell your property to a SIPP your practice could pay rent into the pension fund. The business gets tax relief on the payments made, but as a pension fund has a special tax position it is not liable

to pay tax on the rent received. There are of course other issues to consider if you were to look at pension planning with SIPPs.

If you would like more information on the above please contact Bevan Os-good at our Carlisle Office.

