

# Vets



**GS** **GLOVER**  
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CHARTERED ACCOUNTANTS



### Some Industry specific areas of advice from our experience

VAT: Is point of sale identification of VAT zero rated goods made efficiently and is the VAT cash accounting scheme of advantage?

There can be annual tax/NI savings to be had by operating from within a limited company but with any premises being owned personally or jointly with spouses.

Is ownership of the business correctly set up such as to minimise the various taxes and maximise tax reliefs?

Beware of likely HMRC challenge to tax relief on training courses or conferences that lead to new skills rather than honing existing skills.

What are your future plans? Exit strategy or next generation involved? Plan in place to achieve this?

Is the partnership or shareholders agreement sufficiently robust to deal with appropriate financial arrangements?

Wills: are they tax efficient particularly as regards the business?

Should spouses be shareholders of the business in order to reduce overall tax bills?

Are profit shares/extraction of profits made in the most tax/NI efficient way?

Can tax efficient wages be legitimately paid and justified to family members?

Are owners and staff arrangements on vehicles maximising tax reliefs etc?

Where practical, part time workers can be considerably more cost effective due to employers NI savings compared to full timers.

Is a change of accounting date a good idea?

## Industry Background

There are currently some 2,500 businesses (ie practices) engaged in veterinary activities in the UK (ONS Business Monitor PA1003 Size Analysis of UK Businesses). The number of businesses in this sector has increased steadily since 1986 (when it stood at just over 1,800) as demand for veterinary services has grown.

The size of the average veterinary practice has also increased during this period. Annual industry surveys commissioned jointly by the British Veterinary Association (BVA) and the Society of Practising Veterinary Surgeons (SPVS) indicate that the average practice currently comprises around 6.0 qualified veterinary surgeons. This has increased from 5.01 in 1996, 4.10 in 1990 and only 3.43 in 1985.

Some practices specialise in in-patient care and call themselves 'veterinary hospitals'. Most veterinary hospitals specialise in small animal treatment. Special provision for veterinary hospitals is made within RCVS guidelines which require such institutions to conform to certain standards, including:

- The provision of 24 hour nursing supervision
- The provision of specialist nursing care, for example isolation nursing and the monitoring of anaesthetised animals
- The possession of a recognised vocational qualification by all nursing staff
- A minimum standard for premises, boarding accommodation and facilities

As well as providing specialist care, veterinary hospitals also offer the full range of routine examinations and treatments offered by other practices.

Since 2005, a veterinary surgeon is obliged to provide a prescription for any drugs required but the owner of the animal is not required to purchase the medicines from the prescribing surgeon and can instead shop around for the best price.

All practices now face strong competition from online veterinary pharmacies such as Petmeds, which may offer medicines at a lower price than a veterinary practice is able to.

Professional conduct guidelines laid down by the Royal College of Veterinary Surgeons (RCVS) preclude any reference to fees in advertisements, as well as forbidding touting, canvassing and any claim or implication of superiority over other practices.



### Some Industry specific areas of advice from our experience (cont'd)

Are any loans (both business and personal) arranged in such a way as to maximise tax relief and minimise costs?

Has the strategy on owner's company cars been reviewed in the light of taxable benefits and capital allowances now being driven by CO2 emissions? It can now even make sense for a company to provide low emission cars to non-employee family members such as children!



### Use of Information Technology

How are you maintaining your books and records?

Are you reconciling cash and bank accounts regularly?

Do you know how much you owe or how much you are owed at any time?

The proper use of IT can provide you with regular and meaningful management information and save time and cost.

Would outsourcing your payroll and pension obligations be of benefit?

Would you welcome us maintaining or training you or your staff to operate a computerised accounting system, providing key financial and management information in a timely and understandable form?

Demand for veterinary services has increased over the last two decades. Practices may have benefited from the following:

Increases in the sizes of both the cat and dog populations

Greater concern for animal welfare; many owners now regard their pets as family members and treat them accordingly

Technological advances, which have led to an increase in the range and effectiveness of preventative and curative treatments available

The proliferation of pet insurance policies; owners of insured pets generally take them to a veterinary surgeon more frequently

A general increase in consumers' affluence; as well as enabling owners to spend more money looking after their pets, this has led to an increase in the number of overseas holidays taken, often prompting owners to vaccinate their pets before taking them to a boarding kennels (or, since the introduction of the Pet Travel Scheme (PETS) in February 2000, before taking them abroad, anti-rabies vaccination being a requirement of travel under PETS)

Other factors; well looked after pets tend to live longer and often require more veterinary care as they get older; exotic pets such as reptiles, which have become popular in recent years, are difficult to look after and may require veterinary treatment as a result of owners' poor husbandry

25% of businesses in this sector (ie VAT registered firms engaging in veterinary activities) turn over between £250,000 and £500,000 p.a, while a further approx 15% turn over between £100,000 and £250,000 p.a.

## Financial Performance

There is also a relatively significant number who turn over less than £100,000 p.a.

Apart from charging for time in attendance as well as drugs and supplies used in the treatment of animals, a veterinary practice may derive additional amounts of income from some or all of the following:

- Consultancy and supervisory work to industry and other commercial organisations
- Charging a prescription fee to clients that want a written prescription but do not want to purchase the medicines from the practice
- Teaching and lecturing
- Commission earned from the sale of pet insurance policies
- Retailing sales from a range of feeds and pet care products and accessories
- Specialist services undertaken for other practices, such as laboratory work





## Key Performance Indicators

Financial performance within the veterinary surgeon sector will generally be expressed as a gross profit percentage rate.

Most practices purchase a significant amount of goods for resale (ie drugs, other pet care products and accessories), to which a mark-up is applied. This mix of sales and particularly the percentages of turnover which are respectively accounted for by drug (and other product) sales and fee income will influence the percentage gross profit achieved.

It is an arithmetical fact that the higher the gross profit percentage rate that can be achieved the less turnover is needed to cover overheads and a reasonable level of profit.

Ask us how your numbers compare.

Ask about our own award winning “tax tools” software including “business profitability analyst” based on key driver information.



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## Tax Investigations

Approximately 10% of all investigations carried out by HM Revenue & Customs (HMRC) will be selected at random but these random selections will be targeted at trade sectors where tax is thought to be at risk. HMRC’s stated aim is to spread the investigation net to cover all sectors, including vets. Additionally, HMRC may have their own program of investigations targeted at this sector because of local knowledge, often the result of information obtained in the course of successful investigations into the same or a related type of business in the area.

When a business is selected for investigation other than at random, the most common reasons are:

- Information provided to HMRC by a third party
- Low and/or fluctuating Gross Profit Rate, or some other inconsistency in the accounts
- Low and/or fluctuating Drawings
- Unexplained introductions of cash into the business
- Technical offences, including failure or late notification of liability

Since HMRC is allowed only one enquiry into a return, added to the above reasons for selection for investigation will be an enquiry into a technical matter (e.g. the capital/revenue repairs argument).

You can pay a small premium to ensure your professional fees are covered in the event of an investigation – be VAT, PAYE or tax affairs generally.