# The wish list

To ensure your practice remains competitive, you need to account for tax relief and interest rates when making purchasing decisions, advises **Martin Murray**

**Most cosmetic practices spend a considerable amount of time and financial resources ensuring that their equipment, theatres, consultation rooms and reception areas are as up-to-date as they possibly can be.**

## Capital and revenue

The first thought that comes into an accountant's head when presented with such a question is whether the expenditure on a particular item can be treated as capital or revenue. This is an important distinction as, in most cases, an item that can be treated as a revenue item is eligible for tax relief in the year of the spend, whereas for a capital item the relief may be spread over a number of years.

Generally, a revenue item is one that is small in cost and acquired on a regular basis. However, this need not always be the case as, for example, repairs would be treated as a revenue cost and would normally be eligible for tax relief when incurred.

A capital item is generally a one-off payment for a large piece of equipment. However, using repairs as an example, it could be difficult to distinguish between repairs and improvements, which for tax, may be treated as capital expenditure and as such the tax relief is spread over a number of years. It is therefore important, whenever possible, to distinguish between repairs and improvements on invoices.

## Capital allowances

If the cost is to be treated as capital, the accountant will then try to determine whether any 'capital allowances' are available. These have undergone a major overhaul, and all changes came into effect at the beginning of April 2008.

These new rules can work to your advantage. For example, there is a new Annual Investment Allowance that gives 100% tax relief in any financial year on equipment costing up to £50,000. This is beneficial as it accelerates cash flow by reducing tax.

However, there are one or two pitfalls that need to be considered, the most important being that if you control several businesses, then the allowance may be diluted, based on the number of businesses owned. If you do not control two or more businesses but share premises with a related business, then the allowance may also be restricted. This should be discussed with your accountant.

Any excess spending over the £50,000 cost will mean that tax relief on the excess is spread over a number of years. The timing of any spending is therefore important.

Depending on the nature of your practice set up, if you invest in, for example, equipment that reduces energy costs and improves water quality, then 100% allowances will be available. The new rules relating to such equipment will also include white LED lighting. The Revenue will be updating this area of tax relief later in the year.

## Financing equipment

Having been baffled by the complexities of whether any tax relief is available, you now come to the most important part of the discussion with your accountant as to how to finance the proposed purchases.

Availability of cash is an issue: if cash is immediately available, will it be needed in the future for other items or payments? This aspect of the decision-making process touches on the subject of cash flow, which will be considered in a future article.

If cash is not an option, then borrow to purchase the equipment. Borrowing can take many forms and can include a simple bank loan, a lease or hire purchase agreement or indeed a simple rental.

With the exception of the rental option, generally any loan, lease or hire purchase agreement would still entitle you to the same tax relief, through capital allowances, as if you had bought the item outright by cash. This is important, as many cosmetic practitioners are not aware of this. In addition, on the monthly payments, only the interest element is allowable for tax as the capital repayment part has already been given tax relief through the capital allowances, as detailed above.

Most high street banks have their own finance houses to provide the lease and hire purchase agreements. Indeed, many suppliers of equipment will provide their own form of finance to assist customers.

A simple rental would be allowable in the relevant financial year. However, some rentals are possible finance arrangements that need to be discussed with your accountant to ensure they are correctly treated for tax.

To determine the best deal, ensure you find out the Annual Percentage Rate (APR). The APR comprises not just the rate of loan interest but amongst other factors, any associated fees and method and frequency of payments. It has to be provided by any lender and generally, the lower the APR, the better the deal.

## Make the call

It is important to make the phone call to your accountant and, for purchases involving substantial sums, to make an appointment to visit him/her to discuss the wish list in greater detail. Not only could this save tax but also ensure that the practice remains up-to-date and competitive.

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