Guide for Locum Pharmacists
For pharmacists that are new to contracting or freelancing there are numerous employment structures that you can work under. However, this guide offers advice on setting up a single limited company, which can prove to be the most tax-efficient way of working as a locum pharmacist.

Locum pharmacists have more flexible working conditions and, as well as the opportunity to be financially better off, they enjoy more control over the number of hours they work. However, with this freedom comes a greater level of financial responsibility and legislation to comply with, and greater complexity for managing your expenses, various contracts and sources of income.

At Bishops, our experts have the sector-specific knowledge to help locum pharmacists manage their financial affairs. This guide outlines the requirements for registering and running a single limited company.

For help or guidance on any of the information contained in this guide, please contact us.
Why become a locum pharmacist?

Some advantages of contracting are that it allows you to:

• Increase the amount of money you earn (contracts can be very lucrative)
• Reduce your tax liabilities by not receiving all your remuneration as a standard salary
• Improve working flexibility (hours and location)
• Get away from a management style you disagree with, meetings, and office politics
• Be your own boss

While some locums acknowledge that there are negatives associated with leaving a full-time position, like a loss of paid holiday entitlement and sick leave cover, the consensus among our existing clients is that the freedom is worth it.
Anyone interested in working as a locum pharmacist, and taking responsibility for sourcing their own work, should be aware that there are a number of business structures you can operate under. These include:

- Being an agency employee
- Being a sole trader
- A partnership
- An umbrella company
- An offshore company
- A single limited company

Any of the above trading categories will ensure you comply with UK law while working and receiving payment.

However, at Bishops, we believe in maximising your earnings by choosing a structure that allows you to minimise the amount of tax you owe HMRC. This is why we recommend for pharmacist locums to set up as a single limited company, which also allows for a greater level of control and flexibility.
What is a single limited company?

Firstly, the term “limited” comes from the fact that the personal liability of the owner(s) is limited to the share capital invested, which ranges up from £1. If you work for the company, you simultaneously own it while being an employee of that same company.

A single limited company can trade, sign contracts, own assets and incur liabilities, but – importantly – it is still a separate legal entity from its owner(s). Your ownership of the company is recognised by owning shares in it.

When a company makes a profit it belongs to the company. However, money can then be withdrawn through two ways:

1) A dividend payment (as an owner)
2) A salary payment (as an employee)

While this can sound confusing, locums should not be put off. The major advantage of a single limited company is that you can pay yourself a dividend/salary combination.

This allows you to significantly reduce your overall tax and National Insurance bill.

(Companies pay corporation tax on their profits to HMRC after paying your salary but before your dividend distribution.)
What does the set-up of a single limited company involve?

Before you form the company you need a name for it. You will also have to decide on whether or not anyone else will also own the company with you, as well as its officers.

One owner (shareholder) and one officer (a director) are needed, but the same individual is allowed to take on both roles. This means that you can be a director and shareholder of the company, though if you have a partner you may want them to become a shareholder as well.

If you opt to become the sole shareholder and director, you need to be aware that each role has separate legal requirements, with the latter being responsible for management of the company.

You will need to open a company bank account because a personal one cannot be used. Furthermore, the following have to be registered for:

- VAT
- Pay As You Earn (PAYE)
- Corporation tax
- Indemnity cover/public liability insurance

Please note: it usually takes at least 24 hours to register a company so it fulfils legal requirements for signing contracts et cetera. However, it can take longer for a full registration. At Bishops we can guide you through all the processes involved.
Once the company is operational, there will be ongoing requirements to ensure it remains compliant and is financially successful. Raising invoices is an integral part of a locum pharmacist’s work, and chasing payments can sometimes be a necessity.

Your company will also have to complete the following every year:

- Company profits return
- Annual accounts
- Annual return (to be submitted to Companies House)
- Personal tax return

Regular VAT returns must also be completed every quarter.

At Bishops, our online accounting system – Kashflow – allows you to keep a record of your business income and expenses by adding the necessary information online.

It enables us to see the information, so you can ask us questions about your company’s finances wherever you are in the world, and we will be able to help.

Furthermore, depending on how much assistance you would like, we can complete and submit all of your financial returns on your behalf, using the information maintained in your online account.
The company structure means that a locum can receive their salary in the form of dividends and, though income tax still applies to them, National Insurance (NI) contributions do not.

Furthermore, valid business expenses such as travel costs, insurance and accountancy fees are deductible from the businesses income, meaning that you can benefit.

A single limited company is a separate legal entity to the associated locum, and it has to pay tax on company profits. However, because it doesn’t have to pay tax on the gross income, the situation is more financially rewarding than that of permanent employees.

After every tax bill has been paid, a contractor typically keeps between 15 and 20 per cent more of their gross contract rate than if they were a permanent employee receiving a salary from their employer.
Since April 2000, HMRC’s IR35 has aimed to reduce the number of people working for an employer as a contractor while receiving the same benefits, and following the same conditions, as a permanent employee.

This is to crackdown on those that are avoiding a large amount of tax while essentially – for all intents and purposes – being an employee.

IR35 seeks to establish what the relationship is between a locum/contractor and their client.

However, we can advise locums to ensure that they do not fall foul of IR35. As long as a contract for services is in place with any client(s) – rather than a contract of service – then you are regarded as an individual who is self-employed and able to operate as part of a single limited company.

If ever your circumstances or working practices change you are advised to seek professional advice, to ensure you are compliant with HMRC’s guidelines.
Personal Service Companies – How PSCs will be affected by the 2016 Budget

Changes previously announced in the 2016 Budget have had a significant impact on Personal Service Companies (PSCs) contracting in the UK’s public sector.

Most notably, state engagers and agencies now face a new ‘duty’ to ensure that all PSCs they use ‘off payroll’ are paying enough tax.

Engagers are now liable for the IR35 position of PSCs. The new duty took effect from April 2017.

Private sector PSCs are not affected, but agencies are responsible for deducting tax and NICs from the payments it makes to locums, if those locums are operating under their own PSC.

In this situation, the locum in question will receive a credit against employment and dividend income, ensuring they would not pay tax twice.

The changes were a Government response to suspicions that PSCs have been getting away with paying approximately £400 million less in tax by being paid as a company with corporation tax at 20% rather than as a person, for whom tax is typically at 40%.
Are there any other financial considerations?

Employees can benefit from some or all of the following through various company schemes, but locums will need to consider private alternatives for:

- **Pensions**: at Bishops Financial Planning, our expert wealth management advisers can guide you through a range of suitable pension products that will enable you to fulfil your long term goals. There are additional tax advantages available for pharmacy locums, as the limited company can make payments into a scheme on your behalf, which makes them tax deductible.

- **Income protection**: it may be worth thinking about various insurance plans that could provide you with an income should you be unable to work due to illness or an injury.

- **Private medical insurance**: this is beneficial if you want to ensure that you or your family has quick access to various treatments and medical procedures.

- **Critical illness cover**: this protects a range of medical conditions, and upon diagnosis you will receive a payment.

- **Life cover**: if you die as a result of health, or an accident, this type of cover will ensure your family and loved ones don’t face financial difficulty.

It is important to bear in mind that mortgages can be harder for locums to obtain, due to the nature of contract work, but the longer you prove your ability to earn the easier getting a mortgage approval usually is. If you are seeking to invest your money to provide additional income or security, we can discuss your preferences and advise you accordingly.

Having a contingency fund to pay unexpected bills is crucial. Contract work is not always constant so there may be periods when you aren’t working, or you could fall ill. You will need money to live during periods when you aren’t working.

Please note: you must keep enough money in your company account to pay tax when it is due – it is not stopped at source, which is the case for employees. This should be kept separate to a contingency fund.

At Bishops, we can guide you through all the steps to set up a single limited company for you to work as a locum pharmacist. We can also refer you to independent financial advice through Bishops Financial Planning, to ensure you have the best possible help to make your venture a success.