

TOPIC 7

Tax Management

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Taxes


- Tax management is often outsourced to specialists.
- It is important to know what each tax involves and what the tax calendar is.
- Direct taxes include Personal Income Tax and Corporate Income Tax.
- Indirect taxes include VAT and RE.
- [What taxes are there?](#) (for consultation only)



Value Added Tax (VAT)

- Pharmacies are **NOT** required to file VAT returns.
- However, they pay and charge VAT on each transaction.
- A special tax regime applies to them.
- Pharmacies pay VAT plus a differential called the Rate of Equivalence (**RE**).





Value Added
Tax (VAT)

4% (Super-reduced)	<ul style="list-style-type: none">- Medicinal products for human use- Medicinal substances- Master formulas- Prosthetics, orthoses and implants
10% (Reduced)	<ul style="list-style-type: none">- Veterinary medicinal products- Supplements intended to make up for physical deficiencies (e.g. glasses)- Dietetics, herbalism, phytotherapy- Products for infant and adult incontinence
21% (General)	<ul style="list-style-type: none">- Cosmetics- Skin hygiene products- Other products not included in the previous groups

Differences between the delivery note and the invoice

The delivery note

- This document accompanies the delivery of goods.
- It must include the following data:
 - ✓ Supplier information.
 - ✓ Customer information.
 - ✓ Shipping date.
 - ✓ Delivery note number.
 - ✓ Product description.
- It may also include:
 - Product prices
 - VAT on each product, plus the RE and the total amount

The invoice

- This document proves the sale of the products.
- It is necessary for managing the company accounts.
- It is subject to tax legislation.
- It must include the following data:
 - ✓ The term 'INVOICE' and correlative numbering.
 - ✓ The place and date of issue.
 - ✓ The company name, address and TIN or CIF of the buyer.
 - ✓ The company name, address and TIN or CIF of the seller.
 - ✓ A description of the operation and the total amount payable
 - ✓ The tax base.
 - ✓ The rate of VAT applied.
 - ✓ The calculation of each type of RE (where applicable).

Rate of Equivalence (RE)*

- This is a way of simplifying the pharmacist's administrative obligations with the tax authorities.
- Pharmacies have a special tax regime called the **Rate of Equivalence**.
- This means paying VAT plus a differential amount called the Rate of Equivalence.
- It is always the supplier who includes this equivalence surcharge on their invoices and is legally responsible for payment to the Tax Agency.
- On their sales, pharmacies only apply VAT to their products; they do not pass on the Rate of Equivalence (RE).

This extra cost of VAT is considered a pure expense that pharmacies can never deduct.

(Though neither does it mean a loss of income.)



RE

Characteristics

- RE is applicable to retailers, including pharmacies, because they only sell products, they do not process them.
- Pharmacies are not required to file a VAT return (mod. 303) but they do have to pay VAT.



RE

Advantages

No VAT return (quarterly or annual summary) is required.

No invoice is issued for each sale. Invoices are issued only when a customer asks for one.

RE

DISADVANTAGE

You pay more VAT.

RE

Rates of VAT	Rates of RE
21%	5.2%
10%	1.4%
4%	0.5%

Personal income tax (IRPF in Spanish)

- Mod. 130: payments on account to the Treasury
 1. The IRPF is paid quarterly.
 2. It is calculated from the income generated.
 3. It is usually paid at 20%.

Result = Total revenue – cost of goods consumed – Associated expenses

- Mod. 100: Income tax (IRPF) declaration
 1. IRPF is adjusted annually.
 2. Deductions include the reinvestment of profits, activity start-up costs, pension plans, etc.).

Personal income tax (IRPF in Spanish)

There are two tax regimes:

- Direct estimation method in simplified mode (SDE):

- This is voluntary provided that the net turnover in the previous year does not exceed 600,000 euros.
- It also applies in the first year of the pharmacy office's operation.
- As long as this method has not been waived, it will continue to apply.

- Direct estimation method in normal mode (NDE):

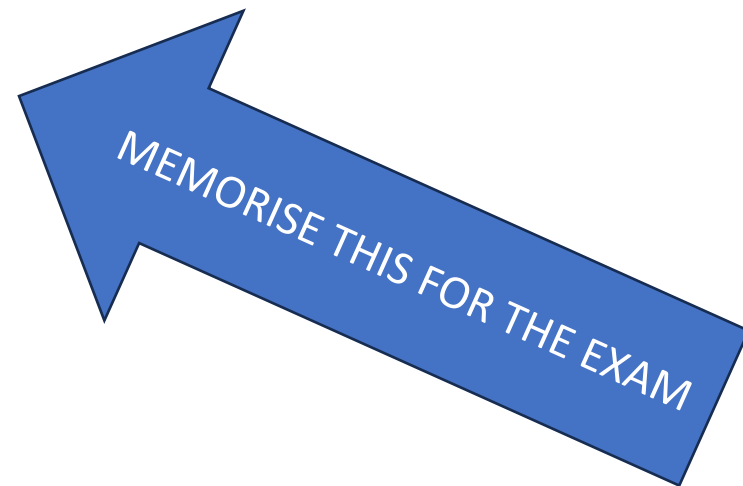
- This applies when EDS is waived.
- The switch must be made in the month of December (before the start of the new year) and will be in effect for three years.
- The pharmacy is obliged to keep accounts in accordance with the Commercial Code and directly apply regulations governing Corporate Tax (IS, or *Impuesto de Sociedades*).

The price of medicines

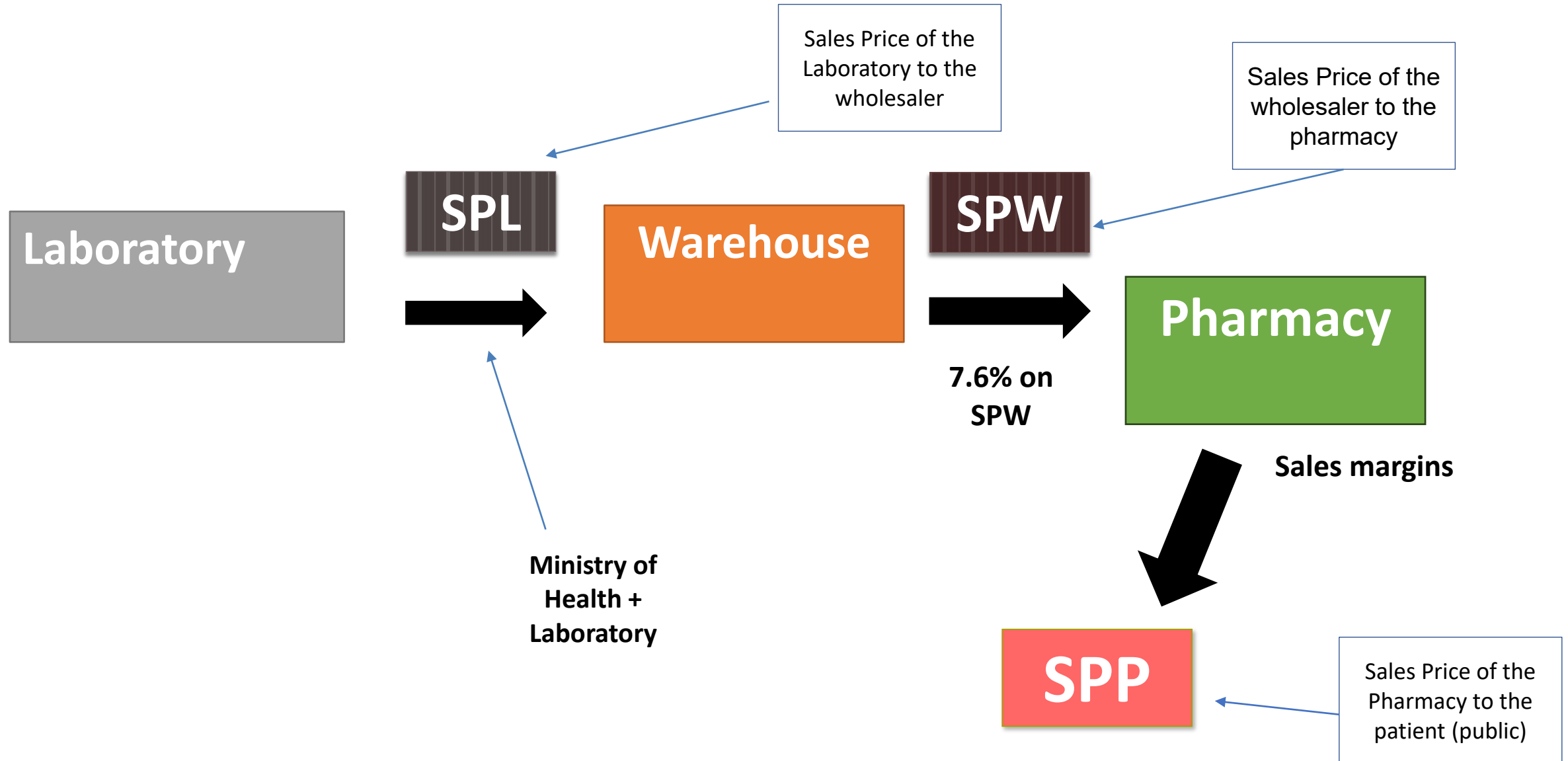
- The sale price of medicines is regulated by law.
- Parapharmaceutical products, on the other hand, are not regulated by law (**free price**).
- Margins are given:
 - warehouse margin = 7.6%
 - pharmacy margin = **variable (see below)**.
- Pharmacy margins vary depending on laboratory prices:
 - 27.9% of SPP* without taxes if SPL** ≤ 91.63 €**
 - 38.37 € per unit if 91.63 € < SPL ≤ 200 €**
 - 43.37 € per unit if 200 € < SPL ≤ 500 €**
 - 48.37 € per unit if SPL > 500 €**

*Sales Price of Pharmacy

**Sales Price of Laboratory



Pricing of Drug Sales



Agents and pricing

- **Laboratories** sell to wholesalers or warehouse companies (VAT is included).
- **Wholesalers** sell to pharmacies (with VAT+RE).
- **Pharmacies** sell to customers or the PUBLIC (VAT is included).

Example	Prices without taxes	Prices with taxes
Sales Prices of Laboratory (SPL)	2.242€	= 2.242 * 1.04 = 2.332€
Sale Price of Warehouse (SPW)	2.426€	Price without taxes*(VAT+RE) = 2.536€ (4% VAT + 0.5% RE)
Sales Price to the Public (SPP)	3.365€	3.50€

Example

- SPL = Sales Price of Laboratory = 2.242€
- SPP = Sales Price to Public + VAT = 3.50€

Sales Price of Wholesaler (SPW) is **unknown**.

By law:

Margin of Pharmacy = 27.9% over the SPP

Margin of Wholesaler = 7.6% over the SPW

$$SPW = SPL + (7.6\% * SPW)$$

$$SPW - (0.076 * SPW) = SPL$$

$$SPL = SPW (1 - 0.076)$$

$$SPW = SPL / (1 - 0.076)$$

$$SPW1 = 2.242 / 0.924$$

$$SPW1 = 2.426€$$

$$SPP = SPW + (27.9\% * SPP)$$

$$SPP - (0.279 * SPP) = SPW$$

$$SPP (1 - 0.279) = SPW$$

$$SPP = SPW / (1 - 0.279)$$

$$SPP = 2.426 / 0.721$$

$$SPP = 3.365€$$

Price of medicines

- We will see more examples with the price simulator (EXCEL)

$$\text{SPL with taxes} = \text{SPL} + \text{VAT}$$

$$\text{SPW with taxes} = \text{SPW} + \text{VAT} + \text{RE}$$

$$\text{SPP with taxes} = \text{SPP} + \text{VAT}$$

Price of medicines (example of a 'cheap' medicine)

- Applying the margin to the PVP gives us the wholesaler's profit.

Example:

- If **SPP = 83.75 €** and **Margin = 27.90%**

↓
(<91.63 €)

$$27.90 \% (0.279) \times 83.75 \text{ €} = 23.36625 \text{ € of margin}$$

- Therefore, **SPW will be:** **83.75 € - 23.36625 € = 60.38375 €**

Commercial margins

$$\text{MARGIN ON SALES} = 1 - (\text{PURCHASE PRICE} / \text{SALE PRICE})$$

$$\text{SALE PRICE} = \text{PURCHASE PRICE} / (1 - \text{MARGIN})$$

MARGIN	PURCHASE PRICE	SALE PRICE
16.67 %	50.00	60.000
20.00 %	50.00	62.500
27.90 %	50.00	69.348
35.00 %	50.00	76.923