

# VAT in *BLACK & WHITE*

## NHS VAT UPDATE: December 2009

### Introduction

Berthold Bauer is the Healthcare VAT & TAX specialist, working with the National Health Service throughout the United Kingdom.

The NHS '**VAT in Black & White**' provides recent VAT and Tax news and developments which affect all NHS bodies.

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### VAT Rate change – 1<sup>st</sup> January 2010

As you are no doubt aware, the Standard Rate of VAT is returning to 17.5% from the 1<sup>st</sup> January 2010, adding further cost to the already stretched NHS budgets.

#### common areas to look out for:

- NHS bodies should ensure that for all Standard Rated cash income, Output Tax will be recorded from the Gross money received at 7/47<sup>ths</sup> (e.g. catering, staff lease car adjustments, shop income etc). Net incomes will be reduced unless charges are increased to account for the rate change
- Where NHS bodies receive invoices from 2010 for work performed prior to 2010, suppliers may 'choose' which rate to charge. For larger supplies it would be advisable to request the lower rate is charged to help lower the cost burden to the NHS
- Anti-forestalling legislation will also be introduced. In summary, for services supplied under normal (continuous) business agreements, the 15% rate applies to 31<sup>st</sup> December 2009 and changes to 17.5% from 2010. For [new] services invoiced prior to the rate change, but where performed after 1<sup>st</sup> January, the rate applicable may be 17.5%

### EU services and Reverse charging – 1<sup>st</sup> January 2010

From the 1st January 2010 the rules surrounding purchases of services from outside of the UK are changing. The changes are a long planned simplification for the VAT treatment of non-UK based services to fall broadly in-line with the purchase of goods from the EU.

Whilst the planned changes are quite technical, NHS bodies need only be aware that they may now have to apply the Reverse Charge (i.e. a self charge of Output Tax) to non-UK purchases (including EIRE) against services incurred for business expenditure. HMRC has focused on this area of late and we strongly urge protocols are enforced to ensure compliance. For any purchases made (or indeed intended supplies to be made) your VAT advisor should be able to provide you with quick and simple instruction, or alternatively, contact our **Free VAT Helpline** for advice.

### HMRC NHS Department Assessments

The NHS department at HMRC has been very active of late and has been issuing NHS bodies with numerous letters and assessments. These range to assisting their office with detailed reporting of recoveries made under the Contracted Out Service rules (i.e. specific headings); to direct estimates for Partial Exemption liabilities outstanding to HMRC.

Please note, any financial assessments are not usually definitive or absolute – i.e. they can still be discussed or amended [reduced] with HMRC approval.

### 'Profit Share' Income

'Profit-share' incomes received by NHS bodies are frequently incorrectly interpreted. There are usually two types of profit share income:

- Where a private company (e.g. a catering provider) 'splits' a share of any profits they generate from [their] business run from your property -  
*VAT Treatment:* this is regarded as income in 'lieu' of rent. It is Exempt income if you have no Option to Tax (OTT) in force on the property, or it is taxable income if the OTT is in force – in which case, Output Tax should be accounted for from your monies received or offset against the periodic supplier charges
- When a private company (e.g. Private Hospital) pays an NHS body a profit share from their own business, where it isn't run from your property, or nothing is supplied in return for these monies -  
*VAT Treatment:* this is usually treated as Outside the Scope of VAT entirely. A strict caveat is the NHS body must not be providing any property usage, goods or services in return for the monies received

### Commercial VAT and online VAT returns

From the 1<sup>st</sup> April 2010, all VAT returns must be submitted electronically by NHS bodies (assuming your turnover is over £100k pa). As HMRC's system can not yet accept the format of NHS VAT returns (i.e. VAT 21s), we are still awaiting guidance. As a stop-gap, NHS bodies may have to email returns to Southend to ensure they are in compliance! We will keep you posted on the developments.

*The above information is for guidance purposes only and should not be acted on without proper consideration of the particular circumstances or seeking Professional advice. Every effort has however been made to ensure statements are as accurate as possible*

If you have any VAT enquiries, Berthold Bauer are happy to offer their **FREE** expert VAT advice

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