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GP PRACTICES – VAT CONSIDERATIONS

Overview

A standard non-dispensing GP practice is generally not registered for VAT because the taxable turnover tends to be under the VAT registration threshold of £85,000 per annum. This is because core contract and enhanced service income from NHS England is covered under the medical exemption for VAT.

There are a couple of fairly common scenarios that lead to a GP practice registering for VAT. Firstly, a practice with a dispensary will be compulsorily registered for VAT as dispensing income is zero rated for VAT purposes, meaning that this contributes towards your taxable income and even the smallest practice dispensary would have annual turnover in excess of £85,000. The second scenario is when a building that is purchased is opted to tax or when a practice chooses to voluntarily register for VAT during a build project. No matter the reason for a GP practice being VAT registered it is crucial that this is accounted for correctly and we will look at each scenario in more detail.

VAT for Dispensing Practices

With the majority of dispensing income being zero rated this means that although a practice needs to register for VAT they don't actually need to pay any output VAT on this income. In terms of income that a practice will need to charge VAT on, there is a bespoke list provided by HMRC and a list of these items can be found on the HMRC VAT health manual under VATHLT2050. The amount of output VAT payable to HMRC is generally rather low as it is only a finite number of medical reports and private vaccinations that this applies to.

Once a practice is registered for VAT it means that they can reclaim input VAT on their purchases from HMRC. A dispensing practice has a mix of taxable (dispensary) and exempt (practice) income and as such partial exemption rules apply for VAT.

In general terms a practice can fully reclaim all VAT on purchases relating solely to the dispensary and can not claim any VAT back on purchases relating exclusively to the medical side of the business. Where an expense relates to both sides of the business (i.e. overheads) then a partial VAT reclaim can be made.

The percentage of VAT that can be reclaimed on partially taxable expenses is calculated by taking taxable income and dividing by total income. This essentially means that the more of your income that comes from the dispensary then the more VAT you reclaim on your partial purchases.

If a practice has monthly VAT on exempt expenditure i.e. VAT that can not be claimed of under £625 then HMRC allow the whole amount to be reclaimed under deminimis rules. This essentially helps practices with very small dispensaries. Where the amount of monthly VAT on exempt expenditure exceeds £625 this is irrecoverable and essentially a cost to the practice.

As the amount of input VAT to be claimed on purchases is always higher than the amount of output VAT to pay on sales for a dispensing practice then a refund is always due. As a result of this most dispensing practices prepare monthly VAT returns rather than quarterly to ensure regular positive cash flow.

It is imperative that practices account for this in an accurate and timely fashion to ensure that deadlines are met and that claims are maximised in a compliant fashion. There are several nuanced rules relating to GP practices such as drug purchases being treated as fully reclaimable for VAT with the exception of personally administered drug items on which the VAT can not be reclaimed.

New rules are currently being implemented by HMRC for compulsorily VAT registered businesses regarding Making Tax Digital (MTD). This means that all dispensing practices will need to be submitting their monthly VAT return to HMRC through their accounting software and practices should have received advice from their accountants regarding this.

VAT on GP Premises

If possible, it would be preferable to purchase a property without VAT. These properties are likely to be older buildings, as new commercial properties will be mandatorily standard rated. It is also possible for a vendor to 'opt to tax' a commercial property, meaning that a unilateral choice has been made to add VAT to the sale price. If the property is subject to VAT on the sale or long lease then we must consider the ability to recover this.

Assuming a VAT registration is in place for a practice, the VAT on the purchase will be an 'overhead' for partial exemption purposes so the input tax will feed into the partial exemption calculation and some of it will be recoverable. If the property is worth more than £250,000, something known as the 'Capital Goods Scheme' will apply and the amount of input tax claimed will need to be adjusted annually over a 10-year period. If part of the property is to be sub-let to a third party, it is possible for the practice to opt to tax the rent. This will improve the practice's ability to recover input tax on the purchase.

If the practice is building a new build and is planning to incorporate a pharmacy to dispense drugs then it will most likely be VAT registrable and it will also need to consider other taxable income which it may not have previously recognised. If this is the case then you need specialist advice because the question of business vs non business income, partial exemption and Capital Goods Scheme comes into play.

In this scenario it is helpful at the onset that you get a Partial Exemption Special Method in place to maximise VAT recovery on the construction and fit out costs and specialist advice should be sought.

VAT on supply of staff between PCN practices

The majority of PCNs have been formed under the flat practice or lead practice model where one member practice is the nominated payee and receives the PCN funding on behalf of all member practices and will normally also employ the PCN staff.

If a practice is employing the PCN staff who work for other member practices this will constitute a supply of staff which is standard rated for VAT. If the costs of staff supplied, plus any other standard rated supplies, exceeds £85,000 the practice would need to register for VAT and charge 20% on those supplies.

The following options are available to PCNs to avoid VAT issues in respect of supply of staff.

1) Employing staff on joint employment contracts. This means that even if one practice pays the staff via their payroll, the joint employment contract means that the staff are shared and so one practice is not supplying to another and there is no VAT issue.

2) Share staff amongst member practices. The PCN nominated practice reimburses any practice which has a PCN member of staff on their payroll. As long as the total cost for PCN staff employed via each member practices payroll, plus any other standard rated supplies, is below £85,000 there would be no requirement to register for VAT.

3) Set up a cost sharing group company. A separate limited company would be set up with each practice member holding shares. The staff would be employed by the limited company on its own payroll scheme. All members of staff will be able to join the NHS pension scheme as the company can apply for temporary access to the scheme up to 31 March 2023. The PCN limited company would invoice each practice for the supply of staff and the lead practice, holding the PCN funds, would make a payment to the PCN limited company. As long as the cost sharing group meets strict condition, then the supply of staff would be exempt for VAT.

    - There must be an independent group of persons supplying services to persons who are its members, mutual trading arrangement
    - All the members must carry on an activity which is exempt for VAT
    - The services supplied by the cost sharing group to which the exemption applies must be directly necessary for a members exempt activity

- The cost sharing group only recovers from its members, the individual members share of the expenses incurred by the cost sharing group and the cost sharing group must not exist for the purposes of gain.

4) Employ staff through the local federation, the federation would be in control of all staff and can administer them accordingly.

These presentation notes are for guidance only. We recommend professional advice should be obtained before acting on any information contained in them.

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