VAT explained by a VAT Novice

Dr Neil Windsor-Jones

MPharm MBBch MRCGP
Dispensing Lead GP Partner
DDA Board Member
“nothing can be said to be certain, except death and taxes.”

Benjamin Franklin 1789
Warning

• I am not a VAT expert and I am not regulated by any financial regulatory authority

• No liability will be accepted for losses incurred by following the advice here-in.

Please seek your own independent VAT advice from a VAT specialist
Learning Objectives

• Breakthrough technical VAT jargon

• Outline areas of dispensing practice with VAT implications

• Explore areas where VAT should be considered when setting up new PCNs
Value Added Tax

• VAT Notice 700/1 = who should register for VAT

• The current registration threshold for taxable supplies = £85,000

• Taxable turnover = total value of all the taxable supplies (including the zero-rated ones)

• VAT account = A record of all the VAT you’ve charged and paid for each VAT return period.
VAT Return

• Informs HMRC how much VAT you:
  1. owe on your sales = Output VAT
  2. are claiming back on your purchases = Input VAT

• Inform HMRC of the value of the goods and services you bought and sold during the period of the return.

• Submit a VAT Return every 3 months. The period covered by the VAT return = your tax period.

• Once registered for VAT you can apply for HMRC to issue VAT returns monthly if you expect your input tax > output tax,
Input and Output Tax

These are the sales and purchases you make for your business.

The VAT paid in Transaction represents the Input VAT for the practice. The VAT paid in Transaction represents the Output VAT for the Practice.

Whether input or output VAT purely depends on your perspective.

Total input tax - Total output tax = Payment balance to HMRC for the tax period.

If Input tax > output tax = Reclaim difference back from HMRC for the tax period.
HMRC VAT Classifications

1. Standard Rate
2. Reduced Rate
3. Zero Rated
4. VAT Exempt
HMRC VAT classifications

- Products change their classification depending on how they are handled by the practice- KEY POINT
VAT Notice 701/57

- VAT Notice 701/57 = Health professionals and pharmaceutical products

- How to account for VAT on goods and services provided by registered health professionals,
Exempt

• The services you provide within the profession in which you’re registered to practice.

• As long as the primary purpose of the services is the protection, maintenance or restoration of the health of the person concerned.
  * Diagnosis of illnesses,
  * the provision of analyses of scans or samples
  * and helping a health professional, hospital or similar institution to make a diagnosis.

• Also goods supplied in the course of the treatment are also exempt
Not exempt

• Services *not aimed* at the prevention, diagnosis, treatment or cure of a disease or health disorder,

• i.e. insurance reports, character references

• any *goods separate from the treatment* i.e. privately dispensed drugs supplied for self administration by the patient for travel purposes are not exempt from VAT
HMRC VAT Classifications

Products ‘Not Exempt’ are either

1. Standard Rate
2. Reduced Rate
3. Zero Rated
1. Standard Rate 20%

- VAT is charged to you by wholesaler
- VAT is charged by you to patient and passed on to HMRC
- VAT incurred can be recovered from HMRC
- Net Neutral effect
  - Private Prescriptions
  - Reports and certificates not deemed treatment
HMRC VAT Classification

2. Reduced Rate  5%

- VAT is charged to you by wholesaler
- VAT is charged by you to patient and passed on to HMRC
- VAT incurred can be recovered from HMRC
- Net Neutral effect
  - Contraception & NRT 5%
HMRC VAT Classification

3. Zero Rated 0%

• Qualifying goods

• Dispensed to an individual for personal use

• CANNOT be given in the course of medical treatment or supplied for use in hospital

• must be dispensed by pharmacist or under ‘relevant provision’

• must be prescribed by a ‘relevant practitioner’
3. Zero Rated

- VAT is charged to you by the Wholesaler
- VAT is charged by you to the NHS but at 0% thus nil to pass to HMRC
- VAT incurred can be recovered from HMRC
- Net Neutral effect
  - Drugs collected and taken away for personal use
  - Prescription charges
  - All Qualifying goods i.e. adapted for medical/surgical use
HMRC VAT Classification

4. VAT Exempt

- Any drugs or supplies personally administered at the practice
- Prescription fees for writing a private prescriptions not dispensed by you
- GMS contract health services
- Private sick notes
- Private vaccinations
HMRC VAT Classification

4. Exempt Supplies

• VAT **is** charged to you by the Wholesaler

• VAT **is not** charged by you to NHS

• VAT **not** charged thus **no** recovery of VAT incurred from HMRC

• **Net Loss** -unless discount you will supply at a loss
Tax Collectors

• In incidence where VAT applies we act as a Tax collector

• Collect VAT on HMRC’s Behalf (Output VAT)

• Then pay the VAT directly on to HMRC

• Finally we Claim back VAT paid to wholesaler (Input VAT) from HMRC unless supply exempt
Charge versus Claim

Charge VAT
- Private Scripts
- Private Medicals
- Insurance Reports

Claim VAT back
- Drug Spend (but not PAs)
- Proportion of VAT on other supplies for the Surgery
Whole Practice Partial Exemption

• Dispensing Practices have supplies that are both exempt and non-exempt from VAT

• A de-minimis calculation is performed by the accountant

• Total Input VAT is split into a) Input VAT from exempt supplies b) Input VAT from non-exempt supplies
Whole Practice Partial Exemption

• Using the standard calculation method if…

  1. Input VAT from Exempt supplies for the period is not > £625 per month

      AND

  2. Input VAT from Exempt supplies NOT > 50% total VAT for period

• Then VAT can be reclaimed on all purchases whether exempt or not.
Exempt Supplies

From a dispensary perspective essentially means our

Personally Administered Items
Personally Administered

• Simple ….. Right….?

• It would be if NHSBSA and HMRC had the same definition of Personally Administered

• From here on PA = two separate entities independent of each other

• **NHSBSA-PA** and **HMRC-PA**
HMRC-PA

• If item leaves the surgery on or inside a patient its HMRC PA

= HMRC PA

• If item taken in a bag its not

= NOT HMRC PA

Cannot Claim VAT back on HMRC-PA

i.e Pay Full VAT on Cost Price
NHSBSA-PA

• No logic here merely a list maintained and searchable by the dm+d browser

• Mostly Injectables

• Local Anaesthetics

• Sutures

• Vaccinations

• Ring Pessaries

• Notable exceptions include Implants, Dressings

Will receive NHSBSA’s PA VAT Equivalent back

Remember no Prescription charges for NHSBSA-PA in England
Search dm+d in internet browser

NHSBSA-PA
Two systems

Therefore each PA item can either be:-

1. NHSBSA-PA Yes : HMRC-PA Yes
2. NHSBSA- PA Yes : HMRC-PA No
3. NHSBSA-PA No : HMRC- PA Yes
Personally Administered

1. NHSBSA-PA Yes : HMRC-PA Yes

Most fall here e.g. Flu jabs, Steroid injections

How it works

Reimbursement = BP - Clawback (11.18%) + VAT

Equivalent back

• VAT Equivalent back =(20% x (BP-Clawback))

• i.e = £10-£1.12 + (20% x £8.88) = £8.88 + £1.78 = £10.66
Personally Administered

Cost = CP - D + VAT (on CP - D)

• i.e = £10 - £0 + £2 = £12

Margin = Reimbursement - Cost

• = £10.66 - £12

• = Loss of £1.34

Cost Price not always same as Basic Price
Personally Administered

- No problem it’s offset by the dispensing fee… but

- When Basic Price = £20

- Margin = £21.32 - £24

- = Loss of £2.68 Not offset

Profit depends on discount!!!

Remember - Dispensing Fee is for the running of the dispensary i.e. equipment staff etc. not to act as a buffer for inadequate reimbursement
Personally Administered

2. NHSBSA- PA Yes : HMRC-PA No

Insulins, Clexane, Metoject, Instillagel etc

How it works

• Reimbursement = BP - Clawback + VAT Equivalent back

• VAT Equivalent back = (20% x (BP - Clawback))

• £20 - £2.24 + £3.55 = £21.31
Personally Administered

Cost = CP - D

i.e = £20 - £0 + = £20

Margin = Reimbursement - Cost

• = £21.31 - £20

• = Profit of £1.31

Cost Price not always same as Basic Price

CP= Cost Price
D=Discount

VAT can be excluded from the calculation as not deemed PA-HMRC thus claim full VAT rebate on purchase
Personally Administered

3. NHSBSA- PA No : HMRC-PA Yes

Nexplanon, Dressings administered at the surgery

How it works

• Reimbursement = BP - Clawback + VAT Equivalent back

• £20 - £2.24 = £17.76
Cost = CP - D + VAT (on CP - D)

- i.e = £20 - £0 + £4 = £24

Margin = Reimbursement - Cost

- = £17.76 - £24
- = Loss of £6.24

Lose Lose here i’m afraid!!
Private Prescriptions

• You **must** charge VAT when dispensing private Rx

• You **will** be able to claim VAT back from HMRC
Private Vaccinations

- Private vaccinations are deemed a medical treatment thus VAT exempt
- You **cannot** charge VAT for Private vaccinations
- You **cannot** claim VAT back from HMRC
- **Ensure** the price you charge will cover the 20% VAT you will be paying when purchasing from the wholesaler.
Primary Care Networks

• England only

• These new working models require consideration of unintended consequences

• Pension, VAT, Liabilities etc.
Primary Care Networks

VAT focus in the following scenarios

1. Flat Practice Model
2. Lead Practice Model
3. Hybrid Model
4. Federation Model
5. Superpractice Model
PCN 1 Flat Practice Model
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• Joint contracts of employment with each of the practices
• One practice nominated payee to receive the Core PCN Funding
• Funding then distributed to the other practices
• As jointly employed, any pay to staff, from any practice, is simply a payment of wages to an employee.
• This cannot be regarded by HMRC as consideration for a supply of services from a VAT point of view,
• Joint safest model with the Super Practice model from a VAT point of view.
PCN 2 Lead Practice Model

- Practice A
- Practice B
- Practice C

- Staff A
- Staff B
- Staff C

[Legend]
- Service Delivery
- Funding
PCN 2 Lead Practice Model

To try and mitigate the risks of a VAT charge arising, the PCN should:

1. In **staff contracts of employment** ensure states a requirement to work across all practices in the PCN

2. In the **schedules to the Network Agreement** record that the Core PCN funding received by the Lead Practice and any contributions from the other practices are **held on trust** for the benefit of the PCN to be used for the provision of **medical care services** to patients of the network practices.

3. Ensure Lead practice avoids sending invoices but instead **send requests for payment** if proof of transfer of funds required for accounting purposes.

Whilst the use of only the Core PCN Funding for additional staff costs **should** significantly reduce the VAT risk. **Cannot** be relied upon and with expansion may not be practical.
PCN 3 Hybrid Practice Model
PCN 3 Hybrid Practice Model

• Different practices employ the different staff
• One practice receives Core PCN Funding
• Payment of staff wages may be sourced as decided on but the easiest approach would be to meet staff costs with the Core PCN Funding.

Main VAT issue remains the same…
• When Practice A contributes to B is it considered payment for supply of staff from practice B and vice versa.
PCN 3 Hybrid Practice Model

To try and mitigate the risks of a VAT charge arising, the PCN should...

1. Ensure **staff contracts of employment** state a requirement to work across all practices

2. In the **schedules to the Network Agreement** record that the Core PCN funding received by the Lead Practice and any contributions from the other practices are **held on trust** for the benefit of the PCN to be used for the provision of **medical care services** to patients of the network practices.
PCN 4 Federation Model

Federation

Staff A
Practice A

Staff B
Practice B

Staff C
Practice C

Service Delivery
Funding
PCN 4 Federation Model

• A Separate organisation receives funding and employs staff.
• The staff work across all of the practices in the PCN.

• Here, any contributions made to the organisation by the practices in the PCN are likely to be regarded by HMRC as consideration for a supply of services

• If the organisation does not hold a contract with NHSE for medical services, it seems likely that HMRC would be more sceptical that it is supplying medical services (outside the scope of VAT).

• That said, in VAT law there is nothing to prevent this to the extent it is providing medical services by people enrolled in the relevant registers.
PCN 4 Federation Model

• To avoid the supplies from a federation to the practices being regarded as a supply of staff then the Federation would need to oversee and deliver the medical services of the PCN.

• The risk of a VAT liability could be mitigated by ensuring the wording of the sub-contract between the network practices and the Federation provides for all PCN funds to be held on trust by the Federation for the benefit of the PCN to be used for the provision of medical care services to the network practices.

• However, from a VAT point of view, this could be the highest risk option.
PCN 5 Super Practice Model

Practice A

Practice B

Practice C

Super Practice ABC

Service Delivery

Funding

Staff A

Staff B

Staff C
PCN 5 Super Practice Model

• By becoming a single practice this PCN is the sole employer of the additional staff no VAT issues should arise.

• However always take advice prior to a merger as may have profound impact on dispensing status

• From a VAT point of view it is therefore the joint safest along side a Flat Practice model.
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• Please seek your own independent VAT advice from a VAT specialist
“After climbing a great hill one only finds that there are many more hills to climb”

Nelson Mandela
References


- Pennington Manches Primary Care Network Guidance commissioned by GPDF 2019


- https://allenbrowneblog.files.wordpress.com/2017/08/taxcollector.jpg