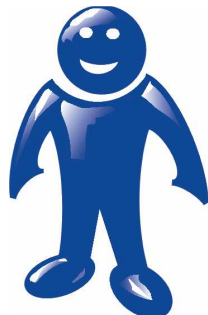


# VAT LIAISON NHS UPDATE

Issue August 2007

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## New rules on VAT errors

It has always been necessary for NHS bodies to notify HMRC of errors of more than £2,000 which relate to business activities before they can be corrected. HMRC have now introduced an additional requirement whereby errors in relation to claims under the refund direction rules must also be notified if they exceed £10,000. Copies of invoices where the VAT is more than £500 must also be included with the notification.

NHS bodies must therefore ensure that they have the necessary procedures in place to identify, record and notify such errors.

## Refund direction update

### *Agency staff*

NHS bodies are only allowed to reclaim VAT under the refund direction rules on agency nurses and agency clerical staff. Recovery is not allowed on other staff provided by agencies such as other types of medical personnel, ancillary staff or those working in the finance and other professional services areas.

### *Computer services*

The definition of code 14 is expected to be amended so that a fully managed computer infrastructure can be provided by more than one supplier. In addition the new guidance will confirm that the supply of computer software licences is not recoverable under this or any other code.

### *Procure 21 projects*

All such projects must be submitted to HMRC before any recovery of VAT is made.

## New invoicing rules

With effect from 1 October 2007 all VAT registered bodies that make sales to EU business customers are required to implement the following new rules in respect of such sales:

- Invoices must bear a sequential number
- Invoices for zero rated sales of goods must state on the invoice that the sale is a zero rated intra-EC supply
- Invoices for exempt sales must make it clear that that the supply is exempt from VAT

Where NHS bodies make sales of this nature we recommend that they obtain the HMRC Information Sheet 10/07 which covers this subject.

## General Practitioners – costs paid by PCTs

Until now HMRC have refused to allow PCTs to recover VAT which they have incurred on payments made in respect of maintenance costs for GPs' IT equipment. However, following representations from VAT Liaison the NHS Compliance Team have had an internal meeting with their Policy section and are considering whether the VAT may be recoverable where the PCT has a statutory requirement to provide these services for GPs. We will provide an update as soon as more information is available.

## Medical services

Following HMRC's review of the d'Ambrumenil case, new rules have been introduced concerning the treatment of certain services provided by health professionals. The new rules apply from 1 May 2007.

The basic principle is that the VAT exemption for services provided by registered health professionals must be restricted to those services intended to protect, maintain or restore the health of an individual. Some examples of services which are now liable to VAT at the standard rate include:

- Pre-employment medicals
- Various fitness certificates
- Occupational health risk assessment and general advice on workplace layouts
- Expert witness statements

If you receive income from services of this nature you must ensure that you are aware of the new rules.

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## Social enterprises

PCTs are being encouraged to look at their provider services to determine whether they are achieving the best value for money and to consider transferring such activities to third parties, which could be existing charities or not for profit bodies or entirely new organisations set up for that particular service. There are many VAT issues to consider in these circumstances and failure to take VAT into account could mean that proposed transfers of services are not cost effective.

## Lennartz mechanism

Although HMRC now accept that NHS bodies can make use of the Lennartz mechanism, the repayment period has been reduced from 20 years to 10 years. Transitional rules are due to be announced shortly by HMRC.

Briefly, for those not familiar with this mechanism, it allows NHS bodies to recover a significant proportion (up to 100% in some cases) of the VAT incurred on the construction of new buildings, provided there are some taxable supplies (i.e. income liable to VAT) being made within the building.

Despite the reduction in the payback period, there can still be a cashflow benefit, especially for Foundation Trusts, and so this option should always be considered.

## Corporation Tax – Foundation Trusts

HMRC have confirmed that Foundation Trusts will not be liable to pay Corporation Tax on the profits of certain trading activities until at least the year 2007-08. They are currently preparing revised guidance which is expected to be issued shortly.

Foundation Trusts should be aware that if they set up subsidiary trading companies these will be subject to the normal Corporation Tax rules and will not benefit from the special reliefs available to the Foundation Trust itself.

## CIS - Construction Industry Scheme

It is not just traditional builders who are required to be registered for CIS. Broadly speaking construction work refers to any work in construction, alterations, repair, decoration or demolition of buildings. Therefore if any Trust spends over £1 million a year (on average over a

three year period) on this type of work, then they may be liable to register for CIS.

The rules of the scheme changed in April 2007, which has altered the administration of the scheme as well as now introducing a declaration to confirm you have checked the employment status of the sub-contractor.

HMRC expect that any set-up problems will be rectified during the first six months of the scheme; therefore penalties will only be introduced from the October 2007 return. The penalties vary from £100 (late submission of monthly statement) up to £3,000 (for not producing records relating to payments made).

Therefore it is essential that NHS bodies review the following to avoid financial penalties:

- Whether they should be registered for CIS
- Procedures to check correct employments status so that PAYE/NI is treated correctly
- Administration procedures

We can review these issues for you so if you are unsure about your obligations please contact our PAYE Helpline.

## How can we help?

Our VATflow™ methodology aims to ensure that any over or underpayments of VAT are identified before your VAT return is rendered, thus avoiding the extra administration involved in preparing claims and delays in receiving refunds. If you don't yet know about this service please contact our VAT Helpline.

If you would like further information or have any queries regarding this Update please contact the VAT Liaison® NHS Tax Helpline on 0800 700 652 or your usual VAT Liaison Advisor.  
Website: [www.vatliaison.com](http://www.vatliaison.com)

*Every effort has been made to ensure the accuracy of this information. However it may not be comprehensive and recipients should not act upon it without first seeking professional advice.*



Liaison Court, Vincent Road  
Worcester WR5 1BW, England  
Tel: 0845 603 9000 Fax: 0845 603 9001  
[mail@vatliaison.com](mailto:mail@vatliaison.com) [www.vatliaison.com](http://www.vatliaison.com)