

STARTING A PRIVATE PRACTICE

Beware the VAT MAN

There is no escaping the dreaded VAT for many consultants who work in private practice. **Ian Tongue** outlines what you need to know if you are starting up and provides a refresher on the subject for established independent practitioners



VAT became an issue for many consultants from 1 May 2007 with many having to register for the tax.

The initial guidance from HM Revenue and Customs (HMRC) was ambiguous, but many grey areas have now been clarified, so it is worth revisiting this area to ensure you understand your obligations.

Who is affected?

Consultants performing significant amounts of medico-legal work are most affected. However, some consultants who may have other business interests in mainly cosmetic areas could also be affected. Your accountant will be able to advise you on your individual circumstances.

When do I have to register?

Anyone who is making supplies subject to VAT, known as 'taxable supplies', can register at any time. However, for most consultants, a voluntary registration is unlikely to be of any benefit unless they incur significant amounts of VAT on expenditure, known as 'input tax'.

Any individual, partnership

(including limited liability partnerships) or limited company making taxable supplies in excess of £68,000 must register for VAT. This is the compulsory VAT registration limit at the time of going to print.

What work is affected?

For most consultants, this is medico-legal work, but reports of any nature are potentially affected. When determining the type of supply, you must consider the purpose of the report.

In VAT-speak, this is known as the 'purpose test'. Medico-legal work is affected because the principal purpose is not the therapeutic care of the patient but for a third party to make a decision, even though there may be treatment recommendations in the report itself.

The other key area affected is cosmetic work, but this is a complex area due to the interaction of older VAT legislation with the changes from 1 May 2007. Upon reading the new legislation, it would appear that many cosmetic areas are affected, but, in practice, this is not the case and HMRC has confirmed this.

Cosmetic work performed in a qualifying health institution should remain exempt, provided that it is carried out by a registered health professional. Work not performed by a health professional in a qualifying health institution can also be exempt, provided that the work is carried out under the direct supervision of a registered health professional within their discipline or is part of a treatment plan for a medical condition drawn up by a registered health professional.

Purely cosmetic work not performed in a qualifying health institution may be subject to VAT, depending on who is performing the work and the purpose of the work performed.

There are other activities which could come into play, so you should discuss your individual circumstances with your own accountant.

When do I know when I have exceeded the limit?

This is often an area of confusion with consultants, as it is assumed

that their accounting year-end or the tax 'fiscal' year-end will apply. This is not the case.

You are required to look back on a rolling 12-month basis each month to see if you have breached the limit. Therefore, it is important that you record your monthly billings and analyse these between taxable supplies for VAT purposes and clinical (VAT-exempt) work.

When you identify that the limit is exceeded and believe this was not a one-off, you have 30 days from the end of the month where the limit was exceeded to register.

You must then charge VAT from the 1st of the following month. For example, if the limit was exceeded in May, you would have until the end of June to register and would start charging VAT from 1 July.

What is the process after registration?

Once an application for VAT registration has been submitted to HMRC, a provisional acknowl-

edgment of your VAT number is usually received within a couple of weeks. However, the formal VAT registration certificate may take up to six weeks.

For some applications, further checks are made and therefore registration may take longer than six weeks.

It is vital that VAT is charged from the proposed date of registration even though a VAT certificate may not have been received. In these circumstances, VAT is added but not analysed on the invoice, and once the VAT certificate is received, you must re-issue the invoices within 30 days.

Do I need to change my record-keeping?

Accounting records for VAT registered businesses must be of a high standard. Records can be reviewed at short notice by VAT inspectors and therefore they need to be accurate and kept up to date.

It is not recommended to main-

tain manual accounting records and therefore this may be the time for such systems to switch to a computerised system. There are a number of off-the-shelf packages written for medics, many of which have VAT functionality built in.

How much extra do I charge?

The standard rate of VAT is 17.5%. However, from 1 December 2008 to 31 December 2009 the rate has been reduced to 15%.

Will there be any benefits?

From the date of registration, you can recover VAT on certain expenditures which have been subject to VAT. There are also provisions to allow a retrospective claim on capital items which are being used in making taxable supplies: for example, computer equipment.

Also, provisions are available to allow the VAT on certain services incurred in the six months prior to registration, but this should be discussed with your accountant.

Many consultants will be performing a mixture of taxable supplies, such as medico-legal and clinical (exempt) work. In these circumstances, there is a potential restriction to the amount of VAT that can be recovered, known as the 'partial exemption' rules. Your accountant will be able to discuss this further with you.

Is it a burden?

For the majority of consultants, there will be little cash-flow benefit once the additional time managing your VAT affairs is factored in. However, there are a number of VAT schemes to assist you in managing your VAT affairs.

What schemes are available?

The following schemes are available to assist in managing your VAT obligations:

- Cash accounting – paying over VAT only when fees have been received;
- Annual accounting – preparing

one VAT return a year and making payments on account;

■ Flat-rate scheme – paying a flat rate over to HMRC (restricted application).

The above schemes are not mutually exclusive and have criteria for their application. The most common combination of schemes is cash accounting in conjunction with annual accounting, which greatly reduces the burden of accounting for VAT. Your accountant will be able to advise you further in this area.

For consultants engaging in non-medical activities, the spectre of VAT is never far away. Working with your accountant will ensure that you do not get caught out and make the administration of VAT as easy as possible.

■ Next month: Your private practice life cycle

Ian Tongue is a partner at Sandison Easson & Co, specialist medical chartered accountants



- inCapitalHealth is an online publication that provides authoritative medical information for patients on the net.
- inCapitalHealth publishes articles written in plain English specifically for patients by senior medical experts.
- inCapitalHealth will ultimately cover all of the main therapeutic areas.
- inCapitalHealth contains expert comment on medical news items via the sister blog www.incapitalhealth.co.uk

If you would like to become involved in this unique medical education initiative or require more information, please contact Bob Davidson at:

inCapitalHealth

Tel: 00 44 18 44 33 80 00 / 00 44 77 11 00 04 40

email: bob@incapitalhealth.co.uk

www.incapitalhealth.com

Comments from senior consultants:

"The concept behind the site is excellent and much needed as there is so much information out there (some of which is bordering on dangerous). I am delighted to be involved."

Mr Tom Ember,
consultant paediatric orthopaedic surgeon

"This site is clearly a winner"

Mr Adrian Lower,
consultant gynaecologist