

A LOOK AT...

VAT AND GP BUSINESS

GPs are used to paying VAT on personal spending, but it is fairly new in the context of GP business. In the first of six articles on financial management, accountant Ian Tongue clarifies the situation.

There have been two key events that have affected how the services a doctor provides are viewed for VAT purposes. These changes make VAT very relevant for the modern GP.

The first change affected dispensing GP practices, which meant they had to register for VAT to recover the tax they paid on drug purchases from HM Revenue & Customs (HMRC), rather than from the NHS.

The second change is in response to a European Court of Justice (ECJ) ruling that affects all doctors and health professionals and focuses on the 'purpose' of the work being performed. These changes came into force in May last year.

The two changes are not mutually exclusive as many dispensing GP practices perform other activities that are now subject to VAT.

Dispensing practices

It is well established that the dispensing of drugs and appliances by GPs on private prescriptions is subject to VAT. This is known as supplying standard rated goods or services. Charges made for private scripts remain exempt together with personally administered drugs.

Following the changes affecting health professionals introduced last year, there are many more standard rated activities. Because of the complexity of their VAT affairs, dispensing GP practices are more likely to receive inspections from HM Revenue & Customs and therefore it is very important that VAT has been charged correctly for goods and services supplied.

Changes for health professionals

Since last year the activities of health professionals have been subject to what is known as the 'purpose test'. This requires health professionals to consider what the primary purpose of the work being performed is. In doing this you need to ask yourself the following question: 'Is the primary purpose of the service being performed in the protection, maintenance or restoration of the health of the person concerned?'

Clearly, there is an element of

subjectivity here. But if the answer is yes, then VAT should not be chargeable and therefore, this service will be exempt for VAT purposes. Before May last year, almost all activities performed by health professionals were exempt.

If the answer is no, then it is likely that the service will be standard-rated and potentially subject to VAT if you are supplying enough of this type of service.

The following is a list of common standard-rated services a GP may supply:

- Benefits agency (Department for Work and Pensions) fees
- Blind or partially sighted examination (forms BD8/BP1)
- Blue badge scheme
- Childminder certification
- Court attendance
- Disability living allowance report and completion of form DS1500
- Fitness to drive, such as HGV licence
- Fire service examinations and reports
- Medicals to determine compensation
- Medical trials
- Pre-employment medicals.

The above is not an exhaustive list and is only intended to cover the more common reports or services. HMRC has produced a table documenting the VAT treatment of services provided by doctors known as Table 3 guidance. This can be downloaded from the HMRC website www.hmrc.gov.uk.

In addition to the above, medicolegal work was affected by the changes. Despite many reports having recommendations for treatment and so on, the primary purpose of this work is to enable a third party, such as a court, to make a decision. Therefore, the majority of medicolegal work is standard-rated.

If in doubt as to whether a service is standard rated or not contact your accountant for further advice.

It should be noted that cremation fees are recorded on the Table 3 guidance as standard-rated, but lobbying by the National Association of Funeral Directors established that certain exemptions remain for this work. So cremation fees (forms B, C and F) remain exempt.

Am I required to register for VAT?

Don't be panicked into registering for VAT. Once the scope of your services has been established, only if you are performing more than £64,000 (at current rates) of standard-rated services will

you legally have to register. You could register voluntarily, but for the majority of individuals the burden and cost of administering VAT will outweigh the gains.

Individual or partnership income?

It may be tempting to separate or carve out income to avoid having to register for VAT. This is risky and should be avoided. HMRC is likely to deem this arrangement artificial and consider the whole income collectively.

What about cosmetic work?

In order to protect earnings and develop new sources of income, some GPs are undertaking cosmetic work such as Botox.

In principle, purely cosmetic work is standard-rated. However this is a very subjective area as procedures can be performed to improve a person's mental health. Furthermore, drugs such as Botox can be used for other medical purposes, such as hyperhidrosis.

To add further complication, the place at which the procedure is performed comes into play. A 'qualifying health institution' retains certain exemptions as they were not affected by the ECJ ruling. Therefore, provided the work is performed in a qualifying health institution, the vast majority of cosmetic procedures will continue to be exempt.

This is a complex area and should be discussed further with your accountant. In particular you should discuss whether the place where the work is performed satisfies the criteria for being classified as a 'qualifying health institution'.

Is it all bad news?

For individuals that are required to register for VAT there are schemes available to make your life easier. These include accounting for VAT when people pay you (known as the 'cash accounting' basis) and preparing one VAT return per year (known as 'annual accounting'). There are strict criteria for their use and your accountant will be able to discuss these further with you.

VAT is a complex area for GPs and health professionals generally. Advice should be sought on an individual basis as each individual or partnership will face different circumstances.

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