

STARTING A PRIVATE PRACTICE: TAX UPDATE



isn't a barrel of laughs

Three letters can strike fear into many independent practitioners. **Ian Tongue** guides you through handling VAT

FOR THE majority of doctors, Value-Added Tax (VAT) is not an issue from their own businesses perspective. But, for some, becoming VAT-registered and adding 20% to their fees has become a reality and the net may be cast wider if HM Revenue and Customs (HMRC) has its way.

What is VAT?

Most people are aware that they suffer VAT on the majority of their personal expenditure and, in the most part, it is unnoticed, as retailers' prices generally include VAT – where applicable.

VAT is charged on the basis of the type of product or service being supplied. There are differing VAT rates depending on the supply, but the highest and most common is the standard-rated taxable supply, currently 20%.

If you are running a business that is VAT-registered, you act as a collector for the VAT on behalf of HMRC. The VAT suffered on expenditure is recoverable either in full or in part and you pay the difference over.

For most businesses, this is expected and is part and parcel of running a business and, in fact, forms a cash flow benefit. For medics, however, as a mixture of work is performed with differing VAT status, it can be a complex area.

Am I affected?

If you are making ongoing taxable supplies in excess of £77,000 (2012-13), you must register for VAT. But what is a taxable supply for a doctor?

For health professionals, work where the primary purpose of the service is the protection, maintenance or restoration of the health of the person concerned is exempt from VAT.

Where work is undertaken that does not satisfy the above, it will usually be a taxable supply (standard-rated i.e. 20%) and therefore care must be exercised to understand the nature of the supplies being made. The most common area of services performed by doctors that is taxable at the standard rate is medico-legal work.

Medico-legal and other similar medical reports are usually undertaken for the purpose of a third party to make a decision on the content for insurance or legal purposes. So this is deemed to be a taxable supply rather than exempt.

Cosmetic work

Cosmetic work not satisfying the above criteria may be standard-rated.

Cosmetic work is a greyer area, as certain procedures/treatments can be undertaken for purely cosmetic reasons, purely medical and

some, no doubt, somewhere in-between. Because of this, it makes it almost impossible to focus on a treatment, procedure or operation and say it is cosmetic and thus a standard-rated taxable supply. As the person making the supply, you need to determine the purpose for undertaking the work performed and decide whether it is a taxable supply or exempt.

Does it matter where the cosmetic work is carried out?

Running alongside the VAT regulations for health professionals (VAT Notice 701/57) are regulations for 'Qualifying Health Institutions' (VAT Notice 701/31). Several years ago, HMRC confirmed that the regulations for qualifying health institutions were not affected by the decision reached in the D'Ambrumenil case, which ultimately resulted in the changes highlighted above in relation to medical reports applicable from May 2007.

HMRC also issued statements and gave examples of work, which should have meant that the vast majority of work carried out in qualifying institutions by a health professional remained exempt.

However, HMRC lost a VAT case in 2009 where it was effectively arguing that the cosmetic work carried out in Ultralase's Medical

Aesthetics clinic was exempt due to the 'qualifying health institution' exemptions. The case concluded that if the work is for cosmetic reasons, then it is a standard-rated taxable supply even within a qualifying health institution.

The decision above has obviously raised many questions and it would appear that HMRC is looking to apply the decision of the case to look closely at the work performed in qualifying health institutions with a view to seeking VAT on certain work. There are several professional bodies in action defending their members who are under attack from HMRC on this issue and, ultimately, it will be up to the courts – possibly the European Court of Justice – to decide this.

As a result of the above, it is difficult to determine the ultimate VAT status of certain work performed in a qualifying health institution. No doubt, any court determinations will be widely reported by this newspaper and through your accountant, if they are a medical specialist.

I need to register: what now?

The limit of £79,000 (2013-14) for compulsory VAT registration is applied on a 12-month rolling basis and therefore your year-end

accounts are not to be used. But often they can be the catalyst for registration if you have been edging closer to the limit for some time.

Once you have established that you have exceeded the threshold, you have 30 days from the month that you breached the limit and you would charge VAT from 1st of the following month from this period. For example, if you breached the limit on 15 March 2013, you would register by 30 April 2013 and charge VAT from 1 May 2013.

You can register voluntarily, but few will receive much benefit from this and therefore this is rare in the medical profession.

VAT schemes

The majority of businesses account for VAT on what is known as an 'invoice basis'. However, for doctors performing medico-legal work, this could result in VAT

being paid over to HMRC before you have been paid by your patient. Therefore, you are able to account for your VAT on a 'cash basis' resulting in only having to declare the VAT when you receive payment. This is available for businesses with a VAT taxable income up to £1.35m (2012-13).

Another scheme that more often than not is beneficial is 'annual accounting'. Under this scheme, you only send one VAT return in per year and make payments on account during the year. Again, the VAT taxable income limit is £1.35m.

The combination of 'cash accounting' (see p24) and 'annual accounting' is very common in my experience for medics.

If your VAT taxable income is less than £150,000, the 'flat-rate scheme' is available whereby you charge at the normal rate of 20% but pay over to HMRC at a fixed rate. This reduces the burden of

having to account for VAT on normal expenditure, but care must be exercised, as the flat rate applies to exempt supplies as well. Therefore, medics performing clinical (exempt) and taxable supplies could be worse off under this arrangement.

If you are becoming VAT-registered, you should discuss your options with an accountant.

Will I need to change my accounting system?

You are required to maintain a higher standard of records as a VAT-registered business. The systems should be robust and accurately split out the VAT on income and expenditure.

Furthermore, those on a cash-based system must be able to extract this information from the system. If you are running manual or simple records, it would be recommended to purchase an electronic record-keeping system and

there are several on the market bespoke to doctors.

Will there be any benefits?

You are able to recover the VAT on expenditure and so a benefit usually arises. But the costs of attaining and maintaining the status will eat into those savings and so most will only experience a modest benefit unless you are suffering significant VAT on expenditure.

VAT within the medical profession is here to stay, so understanding your status is vital to ensuring you do not have potential issues later on. For those performing cosmetic work, these are times of uncertainty and you should keep yourself aware of developments in the area of VAT.

Next month: Requirements of your accounting system

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



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