



# VAT Consulting

*Chartered Tax Advisers*

## **NHS VAT NEWS BULLETIN**

**June 2007**

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- 1. Changes to Contracted-out Services (“COS”) Headings 14 and 37**

*‘Computer services supplied to the specification of the recipient including:*

HM Treasury have completed their review of the COS headings and a revised direction will be issued in the very near future. We shall publish the revised list applicable to the NHS as soon as this becomes available. In the meantime, HMRC have given early notification to a couple of changes which will have retrospective effect back to 1 April 2006.

### **COS Heading 14**

Due to constant changes in IT, it has been recognised that the types of IT services purchased are becoming increasingly removed from the IT services once performed in house.

The revised direction therefore replaces “**Computer services supplied to the specification of the recipient, including the provision of a fully managed and serviced computer infrastructure**” with:

- ***the provision by one or more suppliers of a fully managed and serviced computer infrastructure either using the recipients’ own hardware or hardware provided by the supplier as part of the infrastructure; and***
- ***the development, delivery and support of bespoke software.***

### ***Excluding:***

- ***supply and support of off-the-shelf software;***
- ***hire of hardware alone;***
- ***line rental alone;***
- ***telephony; and***

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- **hire of computer consultants to add expertise to in-house IT teams.**

It is hoped that this new wording makes more explicit what services and procurement arrangements are covered and the sort of services that are not.

### **COS Heading 37**

The actual wording of the heading remains the same; '**Maintenance, repair and cleaning of equipment, plant, vehicles and vessels;**' HM Treasury has additionally confirmed that recovery of VAT under can be extended to equipment, plant, vehicles and vessels **leased** from a separate supplier to the one providing the maintenance. Recovery on this basis can be made with effect from 1<sup>st</sup> April 2006. Previously recovery was restricted to equipment, plant, vehicles and vessels **owned** by a department.

### **2. Changes to the VAT Liability of Income**

As outlined in our previous newsletters, there are changes to the VAT liability of certain medical services which came into place on 1 May 2007. These affect NHS Trusts that generate non-NHS medical income from activities such as clinical trials or occupational health services.

An example is '*post-mortem examinations and reports*' provided to coroners, which are now fully taxable.

The changes from 1 May represent a timely opportunity to correctly

determine the VAT liability of **all** non-NHS income.

We can conduct a systematic review of all income generation streams, both debtor and cash in order to determine the correct VAT treatment. Our work would involve talking to the relevant staff at the Trust to gain a good understanding of your income streams and reviewing a given list of financial reports, contracts, sales invoices and other supporting documentation which we would ask you to produce.

The results of this review would then be used to produce a tailored report to be used to determine the correct VAT liability to be applied to your income streams. This can then be referred to by your staff on a regular basis to ensure that VAT is accounted for correctly on all income.

Please contact us if you are interested in having a review carried out.

### **3. Contracted-out Services VAT Recovery Rules – Patient Appliances**

We have recently had re-confirmation from HMRC of the current COS VAT recovery rules applicable patient appliances.

The term 'patient appliances' refers to items worn by patients such as footwear, callipers, wigs, etc and also applies to aids such as wheelchairs and walking frames.

#### **Custom made items**

The supply of bespoke surgical footwear or of a wheelchair or other appliance specifically designed for a

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particular patient is not eligible for VAT recovery as the supply is primarily of goods.

VAT Act 1994, therefore the suppliers should not be charging VAT on their invoices.

If however, the manufacturer differentiates on the invoice between the goods element and the services element of modifications and adaptations, VAT can be recovered on the services element under COS heading 37, 'Maintenance, repair and cleaning of equipment, etc.'

If you have other colleagues who would benefit from receiving this bulletin electronically, please email us and we would gladly include them on our mailing list.

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Examples of modifications are:

Raising a sole or heel  
Fitting bespoke  
straps/supports/callipers

In these circumstances, VAT can be recovered on the **parts and spares elements** which form a part of the service. VAT **cannot** however be recovered on the main supply of the goods, (e.g. the 'base' shoes).

### **Ready made items**

The supply of ready-made patient appliances such as standard wheelchairs or boots of various sizes is not eligible for VAT recovery as these are treated as goods only.

### **Maintenance & repair**

Repair services such as re-heeling or re-soling is eligible for VAT recovery under item 37, 'Maintenance, repair and cleaning of equipment, etc.', together with the integral goods such as the replacement soles/heels.

### **Orthotist/prosthetist session fees**

These services are exempt from VAT under item 1c, group 7, schedule 9,

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