



VAT Consulting

Chartered Tax Advisers

NHS VAT NEWS BULLETIN

March 2007

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1. **Joint Staff of Universities and NHS Organisations**

A 'Memorandum of Understanding' relating to joint staff of universities and NHS organisations has been agreed with The Department of Health, NHS Employers and the Universities and Colleges Employers Association in response to the *University of Glasgow - v- HM Revenue and Customs* VAT tribunal ruling.

In the University of Glasgow case released in April 2005, the VAT Tribunal concluded that there was a supply of staff from the university to the NHS which was subject to VAT. Furthermore, this VAT was not eligible for recovery by the NHS under the contracted-out services rules.

The purpose of this new memorandum is to set out the NHS and university understanding of the role of joint staff of NHS organisations and universities who are engaged in both teaching and/or research as well as the delivery of patient care.

HMRC have agreed that provided the parties operate within the context of the practices described in the Memorandum, such arrangements will be outside the scope of VAT.

2. **Income Liability Review Service**

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

In our experience, Trusts usually get the liability right for 'core' income such as staff & visitor catering, car-parking or drug sales. Most NHS Trusts do however enter into a broad range of income generation areas where the VAT treatment may not always be considered.

The changes from 1 May represent a timely opportunity to correctly

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

Getting it wrong can represent a nasty surprise if HMRC carry out an assurance visit and find that VAT has not been accounted for on certain income, potentially going back three years. Getting the liability right can however increase the potential for direct and indirect input tax recovery.

Our Review Service

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 including tables and flowcharts 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. Treasury Review of Eligible Contracted-out Services

The list of eligible contracted-out services published in December 2002 is currently being reviewed by HM

Treasury. No conclusions from the review have yet been published but we understand that VAT recovery in relation to professional services is due to be changed.

The perception is that the current heading 52 on the list relating to professional services is too widely drawn, resulting in NHS organisations recovering VAT on a range of services not originally intended by Treasury. The recent 'clarification' regarding VAT recovery on doctors/locums fees is an example of this.

The changes will no doubt be designed to clarify the heading further which will have the effect of limiting the scope for VAT recovery.

We will provide a further update on this once the results of the review have been announced.

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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