

## NHS Newsletter January 2010

### VAT rate – reversion to 17.5%

As you will be aware, the VAT rate reverted to 17.5% on 1 January 2010. In order to ensure no errors are made you should take note of the following:

- Ensure your invoicing systems are amended to charge VAT at 17.5% on all invoices issued from 1 January 2010.
- There is scope to charge VAT at 15% in respect of goods delivered or services provided before 1 January 2010, but this is at the supplier's discretion so it is not obligatory.
- Ensure you use the new VAT rate for all standard rated cash income received from 1 January 2010 – e.g. car parking and catering income. The VAT fraction of 7/47 should be applied to the gross income.

### New rules for services purchased from overseas suppliers

You may already be aware that NHS bodies are required to operate what is known as the reverse charge procedure in respect of certain services purchased from overseas suppliers. This covers, for example, advisory and consultancy services and the hire and maintenance of equipment. This requirement has been extended to almost all services from 1 January 2010.

We would recommend that all purchases from overseas suppliers are checked on a regular basis to confirm that the correct procedure has been followed. This can be summarised as follows:

- **Goods (EU suppliers)**

Acquisition tax should be included in Box 2 of the VAT return, i.e. the VAT is paid to HMRC. This VAT can only be reclaimed if the goods are used wholly for taxable business purposes.

- **Goods (non EU suppliers)**

Customs Duty and VAT is normally payable direct to HMRC at the point of entry into the UK. Again, this VAT can only be reclaimed if the goods are used wholly for taxable business purposes.

- **Services (EU and non EU suppliers)**

Reverse charge VAT should be included in Box 1 of the VAT return, i.e. the VAT is paid to HMRC. This VAT can be reclaimed if the service is one on which VAT is normally recoverable under the Refund Direction (contracted-out services) rules. If not, it is not recoverable.

If you are not familiar with these rules then please contact us for guidance.

[Corporation tax for Foundation Trusts](#)

### Corporation tax for Foundation Trusts

The introduction of corporation tax for Foundation Trusts has been postponed by HMRC yet again. The current plan is to introduce it with effect from the financial year commencing 1 April 2011. No further guidance has been issued by HMRC but further consultation is promised. Any NHS body which makes profits from trading activities needs to be aware that the profits may be subject to corporation tax from 2011.

### Agency staff and professional services

There has been no further comment from HMRC regarding the proposals to remove the scope for recovery of agency staff under Refund Direction code 69 and to amend the definition of Refund Direction code 52 (professional services).

NHS bodies may therefore continue to reclaim VAT under the existing rules.

### LIFT (Local Improvement Finance Trust) – accounting for VAT

Many PCTs have entered into LIFT agreements in respect of new health facilities, and these are often sublet to third parties, particularly GPs. In many such cases PCTs have opted to tax these premises which means they can reclaim VAT on the rent from the LIFT Company and then have to charge VAT on the rent to the GPs (and any other third parties). It is important to be aware that even if no actual invoice is raised to the GP practice, you must still account for output tax on the rental charge via your VAT return.

We are aware that HMRC have been reviewing the VAT returns of PCTs where they know an option to tax has been made and have written to some seeking assurance that VAT has been correctly declared.

Property transactions can cause difficulty as far as VAT accounting is concerned as the rules are complex. If you are involved in LIFT agreements and are not sure you are dealing with the VAT correctly then we would recommend an urgent review of the position.

### Online VAT returns

You may have heard that most VAT registered businesses will be required to submit their VAT returns online from April 2010. This can be beneficial for many reasons, including the avoidance of postal problems, online checks on the figures and immediate acknowledgement of receipt.

Although HMRC had intended that NHS bodies would be able to submit online from next year, it now appears that there will be a delay and so you will have to continue to submit VAT returns manually for the medium term at least.

### 3 to 4 year cap for correction of VAT errors

When dealing with errors relating to business activities the rule until quite recently has been that corrections should be made for the previous three years. During the 2009 to 2010 financial year, this period is being extended to four years, so by April 2010 the full four years will apply.

It is important to be aware that the correction of errors applies both ways, i.e. to VAT owed to an NHS body and VAT owed by an NHS body, so it is good practice to ensure business income and expenditure is reviewed regularly to spot any errors as soon as possible.

### Fleming/Conde Nast claims

Many NHS organisations will have submitted claims to HMRC following the decisions in the Fleming/Conde Nast cases.

Although no blanket agreement has yet been given by HMRC to allow the repayments to be made to the subsequent NHS

organisation that delivers the relevant service, the current confirmations being sought by HMRC suggest that these organisations will eventually be in receipt of the agreed proceeds.

#### How can we help?

If you have any concerns about the issues covered in this newsletter then please contact your usual Liaison adviser or our free helpline on 0800 700 652. If you are not currently a Liaison client, our VAT*flow* methodology aims to ensure that any over or underpayments of VAT are identified before your VAT return is rendered, thus avoiding the extra administration involved in preparing claims and delays in receiving refunds. If you would like to receive more information about our unique VAT*flow* service, please contact our VAT Helpline on 0800 700 652. Every effort has been made to ensure the accuracy of this information. However, it may not be comprehensive for your particular situation and recipients should not act upon it without first seeking professional advice.