

Changes to VAT Exempt Medical Services

New rules

New rules on VAT exemption for medical services have been announced which will take effect from 1 May 2007. These will bring into the VAT net some services provided by GPs which were previously exempt. Most of the core services will remain exempt (or zero rated for NHS prescriptions), but the change will impact on services such as fitness certificates and pre-employment medicals, which are seen to be primarily as being for the benefit of a third party rather than the patient.

Whilst most insurance-related services remain exempt from VAT for the time being, their exemption now relies upon the fact that they are seen as an insurance rather than a medical service. Since the insurance exemption is under review, there is a risk that medical reports for life insurers may in future become subject to VAT.

Medical care

The changes come as a result of a European Court case (Dr Peter D'Ambrumenil) which held that 'medical care' is defined as those services intended principally to protect (including maintain or restore) the health of an individual. The Court held that medical services which are primarily for the purpose of enabling a third party to take a decision are liable to VAT.

VAT changes

All care and treatment provided through the NHS continues to be exempt from VAT, as does any medical service carried out primarily to protect, maintain or restore the health of an individual, including private consultations. However, if the purpose of a medical examination or report is to enable a third party to decide on a course of action, the medical services will not be VAT exempt, but will be subject to VAT at 17.5%. Doctors and other health professionals who provide services such as medical certificates, reports and pre-employment medicals are among those who may be affected.

Services affected

The Brief produced by HM Revenue & Customs (HMRC) identifies the services affected as :

- witness testimony/reports for litigation, compensation or benefit purposes
- reports/medicals for the purpose of providing certain fitness certificates and some occupational health services.

These services will become liable to VAT at 17.5 per cent from 1 May 2007. This summary is not yet exhaustive, as discussions are still going on between HMRC and professional and industry groups. PKF will keep you advised of any further changes in liability and procedures.

Registration

If a practice is not currently VAT registered, then these changes will only affect you if your standard rated income exceeds the current threshold of £61,000. If a practice does exceed the limit or is already VAT registered as a consequence of last year's changes in the funding of the VAT incurred on drugs purchases, then VAT will be chargeable from 1 May 2007.

We would recommend that practices review their VAT income streams, before 1 May 2007, as accounting systems will need to be adjusted to capture the changes. PKF has already assisted practices in this area as a consequence of the 2006 changes. For practices that are already VAT registered, the increase in standard rated supplies will generate a small benefit in the amount of VAT that can be reclaimed on a practice's overheads.

Practices that are not VAT registered should keep their standard rated income (private prescriptions, fitness certificates, etc) under review and, if approaching the £61,000 threshold, take a reasoned view of whether they should try and remain under it, thereby avoiding the compliance costs brought about by VAT registration. Doctors that provide standard rated services as individuals rather than through the partnership need not count these towards a partnership's £61,000 threshold, although HMRC has the power to consolidate this income if it believes such a disaggregation is driven solely by VAT concerns.

Time to prepare

We would encourage doctors to ensure that their patients are appropriately informed if they will now have to charge VAT on certain services as a result of the new regulations. Doctors will need to ensure they have reviewed their income streams, and made the necessary changes before the new tax regulations are implemented.

If you would like to discuss this issue in greater depth, please contact your local PKF VAT adviser.

Email vatlinks@uk.pkf.com

Our Offices

Birmingham

New Guild House
45 Great Charles Street
Queensway
Birmingham B3 2LX
Tel 0121 212 2222
Fax 0121 212 2300

Bristol

Pannell House
6-7 Litfield Place
Clifton
Bristol BS8 3LX
Tel 0117 906 4000
Fax 0117 974 1238

Cardiff

18 Park Place
Cardiff CF10 3PD
Tel 029 2064 6200
Fax 029 2064 6201

Derby

Century House
St James' Court
Friar Gate
Derby DE1 1BT
Tel 01332 372936
Fax 01332 371449

Edinburgh

17 Rothesay Place
Edinburgh EH3 7SQ
Tel 0131 225 3688
Fax 0131 225 6017

Glasgow

78 Carlton Place
Glasgow G5 9TH
Tel 0141 429 5900
Fax 0141 429 5901

Great Yarmouth

East Coast House
Galahad Road
Beacon Park
Gorleston
Great Yarmouth
Norfolk NR31 7RU
Tel 01493 382500
Fax 01493 382525

Guildford

Pannell House
Park Street
Guildford
Surrey
GU1 4HN
Tel 01483 564646
Fax 01483 578880

Ipswich

16 The Havens
Ransomes Europark
Ipswich
Suffolk
IP3 9SJ
Tel 01473 320700
Fax 01473 320800

Leeds

Pannell House
6 Queen Street
Leeds
LS1 2TW
Tel 0113 228 0000
Fax 0113 228 4242

Leicester

Pannell House
159 Charles Street
Leicester
LE1 1LD
Tel 0116 250 4400
Fax 0116 285 4651

Lincoln

St Hugh's
23 Newport
Lincoln
LN1 3DN
Tel 01522 531441
Fax 01522 510185

Liverpool

5 Temple Square
Temple Street
Liverpool L2 5RH
Tel 0151 237 4500
Fax 0151 237 4545

London

Farringdon Place
20 Farringdon Road
London
EC1M 3AP
Tel 020 7065 0000
Fax 020 7065 0650

Manchester

Sovereign House
Queen Street
Manchester
M2 5HR
Tel 0161 832 5481
Fax 0161 832 3849

Norwich

Cedar House
105 Carrow Road
Norwich
Norfolk
NR1 1HP
Tel 01603 615914
Fax 01603 661626

Nottingham

Regent House
Clinton Avenue
Nottingham
NG5 1AZ
Tel 0115 960 8171
Fax 0115 960 3665

Sheffield

Knowle House
4 Norfolk Park Road
Sheffield
S2 3QE
Tel 0114 276 7991
Fax 0114 275 3538

Associated firms

Guernsey

P.O. Box 296
Suites 13&15
Sarnia House
Le Truchot
St Peter Port
Guernsey
Channel Islands
GY1 4NA
Tel 01481 727927
Fax 01481 710511

Isle of Man

P.O. Box 16
Analyst House
20-26 Peel Road
Douglas
Isle of Man
IM99 1AP
Tel 01624 652000
Fax 01624 652001

Ireland

Birr

Birr Technology Centre
Birr
Co. Offaly
Tel: 00 353 509 25662
Fax 00 353 509 25664

Dublin

Trinity House
Charleston Road
Ranelagh
Dublin 6
Ireland
Tel 00 353 1 496 5388
Fax 00 353 1 496 9226

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