

New opportunity for VAT savings on welfare services

This has saved some clients well in excess of £1 million per year.

For most care homes the VAT they pay on operating costs is an irrecoverable expense. However, there is an opportunity to change this and we have been advising a number of providers to significantly improve their VAT positions, putting them on a similar footing to when the service were provided directly by a local authority.

Details of the opportunity

VAT cannot be recovered on costs associated with the provision of welfare services as they are treated as being exempt from VAT. However, in many instances the services are provided to an entity that could recover VAT if it were properly chargeable, e.g. local authorities and NHS Trusts. Therefore, we have been assisting clients within the sector to 'break' the VAT exemption conditions so that they apply VAT to their services. By charging VAT (which the local authorities and NHS Trusts can reclaim) the operator is able to recover the VAT on associated costs.

We have recently had several clients undergo VAT inspections where HMRC concluded their enquires without any adjustments being made. This shows that the arrangements we have described are accepted by HMRC providing they are implemented correctly.

Key points

- Welfare services provided by a state regulated entity are VAT exempt.
- It is pivotal to the savings opportunity that the conditions for exemption are not met and our clients have done this by serving their clients through a non-state regulated trading subsidiary. This results in VAT being properly applied to the subsidiary's supplies.
- The original contracts for services are either novated to the trading subsidiary or terminated with a new agreement entered into directly with the trading subsidiary.
- For the purposes of state regulation, the Care Quality Commission regulate the physical provider of the service so there are no regulatory concerns with operating with a trading subsidiary.
- Employee contracts of employment do not need to be altered as the staff will continue to be employed by the charity/state regulated entity.