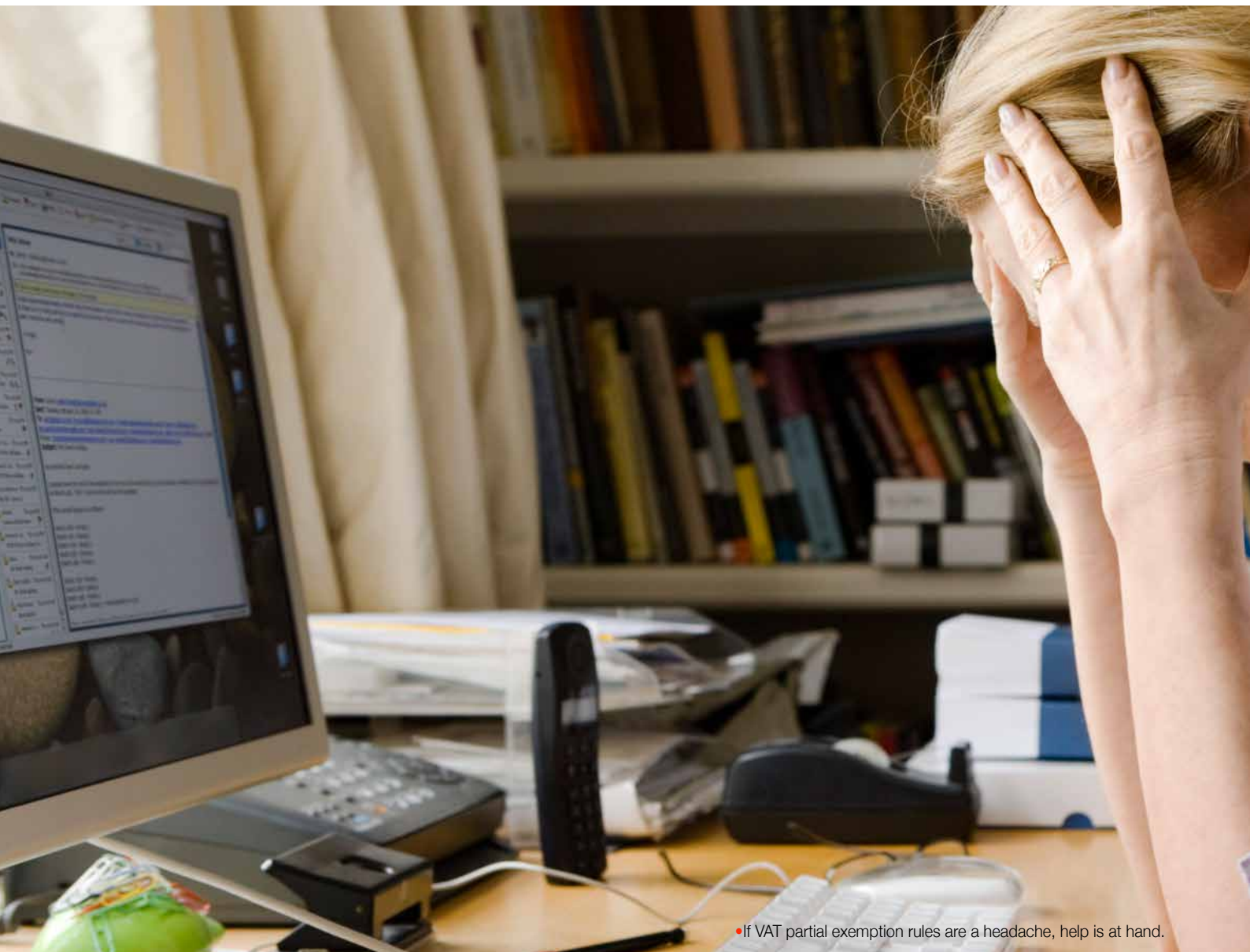


VAT facts explained

Alison McDowall explains partial exemption rules for dispensing practices



• If VAT partial exemption rules are a headache, help is at hand.

The VAT partial exemption rules that apply to all dispensing practices can be a headache. Time consuming to administer they can cost the practice staff time or professional fees. And if the VAT return is incorrect the practice will

either overpay or risk incurring a penalty and interest.

Here are a few tips to help you manage your dispensing VAT requirements more efficiently:

1. Allocate expenditure correctly

When calculating the amount of input tax to reclaim the first step is to allocate expenditure into exempt, taxable or residual pools.

The temptation when allocating

expenditure is to take a cautious approach and place expenditure in the pool which gives the lowest input tax reclaim to avoid any problems with HMRC. This though could cost the practice in terms of lost input tax reclaim so take a positive approach to allocating expenditure.

When expenditure is correctly allocated to the residual rather than the exempt pool this is beneficial

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If expenditure does not relate solely to either the general practice or to the dispensary then you must allocate this to the residual pool.



as there is at least some input tax recovery. Similarly, correctly allocating expenditure to the taxable pool will give a full rather than a partial reclaim.

2. Request itemised bills

It may be beneficial to ask suppliers for itemised bills and invoices for services provided.

Example: a VAT registered supplier is decorating the

dispensary and the waiting room, where the dispensary counter is located. If the supplier provides separate invoices for the works the practice would be able to reclaim a larger amount of input VAT. The expenditure related to the dispensary would be fully reclaimable and the waiting room costs would fall in the residual pool enabling a partial reclaim. Otherwise the whole expenditure falls into the residual pool, with only a partial reclaim.

3. Test for *de minimis* limits

If the practice is below the *de minimis* (minimum) limits then a full reclaim of exempt input tax is allowed.

From April 1, 2010 changes were introduced to simplify the *de minimis* rules to avoid a full calculation, and these are:

Test one: total input tax incurred is no more than £625 per month on average and the value of exempt supplies is no more than 50 per cent of the value of all supplies.

Test two: total input tax incurred less input tax directly attributable to taxable supplies is no more than £625 per month on average and the value of exempt supplies is no more than 50 per cent of the value of all supplies.

4. Remember annual adjustment

It is easy to overlook that an annual adjustment calculation is required for the 12 months to March 31 if monthly returns are prepared, or for the 12 months to the end of the practice VAT year if preparing quarterly returns.

This calculation repeats the monthly or quarterly calculations on an annual basis and any over or under payment is repayable or recoverable. It is necessary to apply the *de minimis* tests to the year as a whole. If the intended use of items of expenditure has changed (for example, equipment

purchased for the dispensary was in fact used by general practice) then these may need to be reallocated.

5. Avoid penalties

The penalties for an incorrect return can be severe. Up to 100 per cent of the potential lost revenue is the penalty in cases where errors are deliberate and concealed. A penalty of 70 per cent of potential lost revenue is incurred for deliberate but not concealed errors and 30 per cent for a careless inaccuracy. There are reductions for disclosure that vary depending on whether this unprompted or not.

Errors of over £10k are required to be disclosed separately to your VAT return, and it is recommended that errors below this should also be informed separately to ensure that the penalty reductions for disclosure are received.

Remember there is a four-year cap for correcting errors, so if you find an error make sure it is within the time limits to correct it.

6. Classify income correctly

It is essential to the calculation of the amount of residual input tax that is reclaimable that income is correctly classified between taxable (standard, reduced or zero rated) and exempt income. Classifying income as the former will increase the amount of input tax that is claimed, so it must be correct.

Notice 701/57 Health professionals and pharmaceuticals (November 2011) explains VAT liability of goods and services provide by registered health, medical and paramedical professionals.

These tips are for general guidance only. If in doubt please consult your tax advisor. ■

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