

PRIMARY CARE NETWORKS

VAT considerations

All Primary Care Networks (PCN) will have now submitted their registration information to their CCG, and will be working over the next few weeks to complete their PCN agreements.

The timescales are short as the PCN contract goes live on 1 July 2019. This document comments on some of the financial considerations.

From initial discussions it seems that most PCNs are going down either the 'Flat Practice Structure' or 'Lead Provider' operating model, so that NHS Pension membership is available to employees of the PCN. This document addresses these options, and not the 'GP federation/provider entity' or other options.

The most common questions raised with regard to PCNs are in relation to VAT. Depending on the operating model chosen, VAT can have a large impact on the network's member practices. To understand the VAT issues requires knowledge on the current VAT treatment of income for GP practices.

VAT ON THE PROVISION OF MEDICAL CARE

Unless a practice is a dispensing practice, it is not usually registered for VAT. This is because the provision of medical care by a registered medical professional is exempt from VAT, and the total amount of any income that does not fall within the exemption is usually below the £85,000 VAT registration threshold.

In order for NHS income received by a GP Practice to be exempt from VAT it needs to meet two tests which are:

- 1) the services need to be provided by a medical practitioner or other medical professional registered with the appropriate statutory body; and
- 2) the services provided are for the "protection, maintenance or restoration of the health of an individual".

Below, some key considerations are covered in order to give a better understanding of the impact that VAT can have on the individual member Practices of a Network

VAT AND PCNS

The VAT legislation predates PCNs, so no specific legislation exists at present. We therefore have to consider how the existing VAT rules may be applied to common PCN situations.

DES FUNDING

The DES funds received by the nominated practice and passed on to the member practices are for the provision of medical care and will not constitute chargeable supplies for VAT.

This relationship is referred to as a 'disclosed agent' and

ensures the other practices are aware the lead practice/nominated payee is only ever collecting funds from NHS England on behalf of them and then these funds are passed on accordingly.

SUPPLY OF STAFF

Under the 'Flat Practice Structure' staff are employed jointly by the practices in the PCN. If joint employment contracts exist then any charges for the exact employment costs passing between the practices for the use of staff are outside the scope of VAT.

If the 'Lead Practice' model is used, the lead practice will receive the funding from the PCN DES that relates to the employment of staff. This will amount to 70% of the cost of employing a clinical pharmacist and 100% of the cost of employing the social prescriber. Contributions by member practices to fund the remaining 30% cost of the pharmacist should be exempt from VAT, since pharmacists are one of the registered medical professionals covered by the VAT exemption, as long as control remains with the lead practice when the pharmacist works for other practices.

The VAT exemption does not cover charges for administration services. Therefore if a lead practice recharges other PCN members for the time incurred in dealing with the administration of the PCN, this would be a supply on which VAT is chargeable at 20% (if the lead practice is already VAT registered, or needs to register because the value of all its taxable supplies now exceeds £85,000 per annum).

CLINICAL DIRECTOR

The clinical director is likely to be a GP. However any recharges for his/her services to the PCN in this role may not be exempt from VAT, as the services will not be for the "protection, maintenance or restoration of the health of an individual".

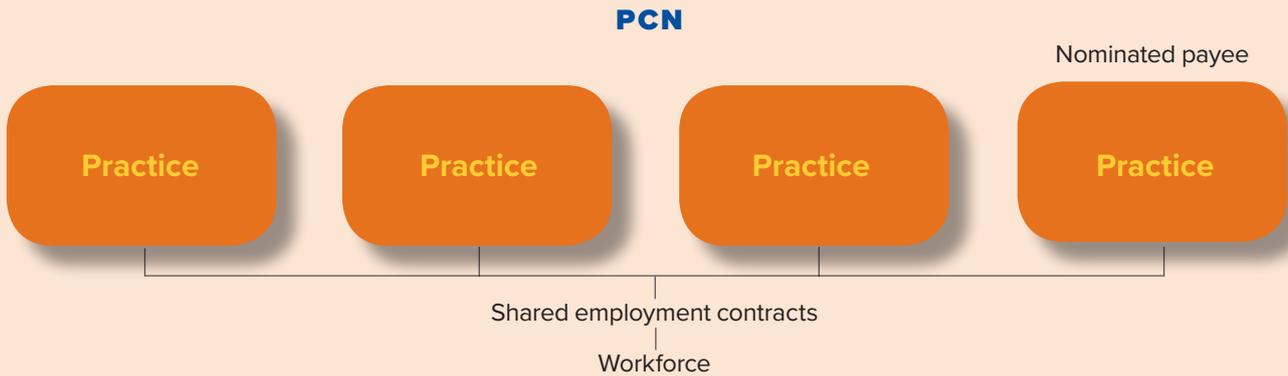
LOSS OF IRRECOVERABLE VAT WITHIN THE NETWORK

If a lead practice charges a taxable supply to another network member practice there is a risk of VAT being 'lost' within the network. For example, a lead practice charges for the supply of administration staff time. This would be a taxable supply and the lead practice would charge standard rated VAT at 20%.

If the practice being charged is VAT registered, they would be applying the partial exemption rules and may be able to recover some, but not all of the VAT charged. If the practice being charged is not VAT registered none of the VAT would be recoverable.

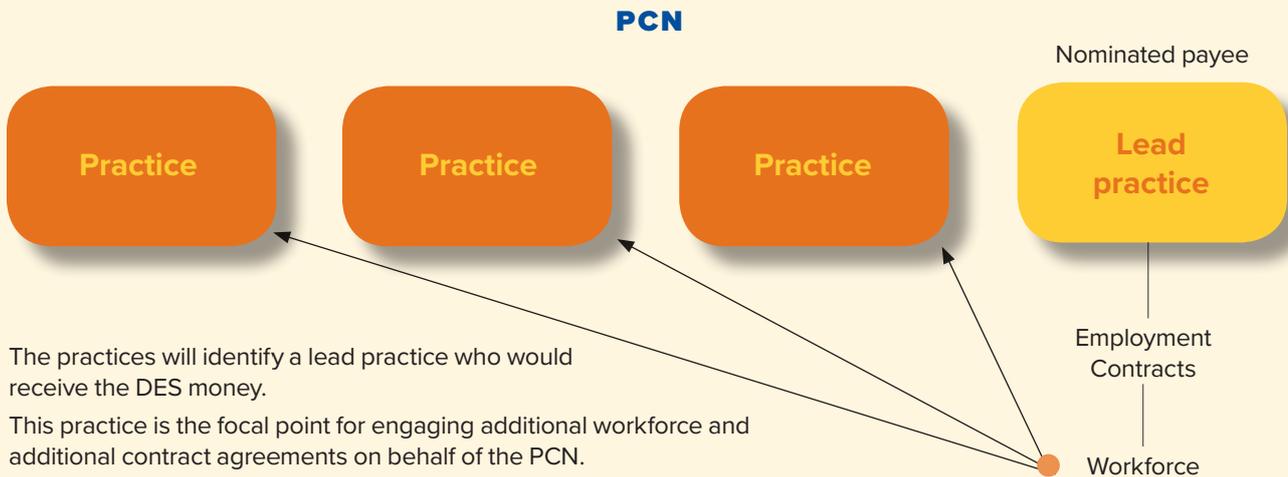
PCN budgets will need to factor in the cost of irrecoverable VAT if this applies.

FLAT PRACTICE STRUCTURE



- Responsibilities, contractual commitments and funding would be spread across its members.
- One practice would receive the DES money as 'Nominated Payee'.
- Network staff would be held on joint contracts of employment.

LEAD PROVIDER



- The practices will identify a lead practice who would receive the DES money.
- This practice is the focal point for engaging additional workforce and additional contract agreements on behalf of the PCN.
- The lead practice would employ the network staff but they would be used by all practices as required. This is likely to create a supply of staff by the lead practice which may create a VAT charge.

HOW PKF FRANCIS CLARK CAN HELP

A network may be all dispensing practices which are already VAT registered, all non-dispensing practices which are not VAT registered, or a combination of dispensing and non-dispensing practices. The VAT implications will vary between PCNs because of this.

Careful consideration will be required to target the issues relevant to your Primary Care Network. There is no 'one size fits all' solution. If you would like further assistance, please contact a member of our Healthcare team who can advise on the issues that will arise for your network.



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