Dispensing Doctors and VAT Registration: How and when to register; taxable or exempt supplies; VAT recovery and what records need to be kept.

January 2006

1. Introduction

1.1 What is this Information Sheet about?

Following changes in Department of Health funding, effective from 1 April 2006, dispensing doctors who wish to recover VAT incurred on the drugs they dispense will need to register for VAT. This Information Sheet provides:

- Advice about how doctors can register for VAT.
- Information about the VAT treatment of the goods and services they provide.
- Advice about how much VAT can be recovered on purchases.

It is intended to supplement, not substitute, existing HMRC guidance.

2. Registration

2.1 How and when to register for VAT

2.1.1 Before applying to register

For help with registration and for general advice on VAT matters, the CD Rom "Getting Started in VAT" can be obtained from the National Advice Service. It is recommended that doctors obtain a copy of this at their earliest convenience.

References to "doctor" or "doctors" in this Information Sheet should be taken to mean all doctors (general practitioners) who are included in any individual VAT registration e.g. the term "doctor" or "doctors" will apply to all doctors who have applied to be registered together as a partnership.
2.1.2 Legal Entity

All dispensing doctors will need to consider how they should be registered, for example individually as sole proprietors or jointly as partnerships. The legal entity chosen should reflect actual working arrangements, so if several doctors work together in a practice, they would normally be registered together as a partnership.

VAT registration will cover all the supplies made by the doctors involved in the registered legal entity. For example, where a doctor is registered as a sole proprietor all the income he or she receives, for both medical and non-medical purposes, is subject to the VAT rules relating to such supplies.

It is important that doctors are aware of the VAT liability of all their activities, as this could affect:

- How they register for VAT – see section 2.1.3.
- The amount of VAT they can claim on their VAT returns.

2.1.3 The Effective Date of Registration

The VAT registration threshold currently stands at £60,000 of taxable supplies per annum. All dispensing doctors, who are applying for VAT registration because of the changes in Department of Health funding, should register from 1 April 2006. This will be their effective date of registration.

Dispensing doctors, who may have exceeded the VAT registration threshold at some point in the past, but who wish to claim exemption from registration from that earlier date, should seek to register from 1 April 2006.

Any dispensing doctor whose taxable supplies are less than £60,000 per annum can apply for voluntary registration from 1 April 2006.

2.1.4 Taxable Supplies

Details about taxable and exempt supplies made by doctors can be found in Section 3.

2.1.5 Registration Forms

In order to register, doctors will need to complete an Application for Registration (VAT 1) and, if registering as a partnership, a Partnership Details form (VAT 2).

Both of these Forms can be obtained from the National Advice Service or can be downloaded from the HMRC website.

Help with completing VAT registration application forms can be found on the HMRC website Top Tips page.

In addition, doctors should refer to notice 700/01 “Should I be registered for VAT?”
2.1.6 Where to send applications

To facilitate the registration process, paper Applications for Registration (VAT 1) and, where applicable, Partnership Details (VAT 2) must be sent to the Wolverhampton Registration Unit at the following address:

HM Revenue and Customs
VAT Registration Unit
Deansgate
62 - 70 Tettenhall Road
Wolverhampton
WV1 4TZ.

Please see annex A for details about how to register online.

2.1.7 Additional Help by Phone

HMRC can offer telephone-based assistance to those doctors who are affected by the changes in Department of Health funding, whilst they are completing paper or online registration applications. Doctors may wish to use this service to verify that they have completed the VAT1 and VAT 2 forms correctly or to confirm which details should be entered in particular sections of their application.

Ensuring that forms are correctly and accurately completed reduces the need for HMRC to contact applicants at a later date to ask questions or request additional information which may delay the completion of the registration process.

This service will be available from 1 March to 31 May 2006. Staff will be available from 1000 to 1600, Monday to Friday to answer queries about the completion of VAT registration forms. Details of the helpline telephone numbers can be found below in section 5.2.

This service will not be able to offer advice on general enquiries about VAT. For general enquiries, doctors should contact the National Advice Service.

2.1.8 When to apply for registration

Unless required to do so, doctors are requested not to submit their registration applications before 1 March 2006. In addition, there is no need for all doctors to apply to register in the first week of March. Please avoid contacting the telephone service to chase applications - this takes staff away from processing applications.

2.2 Specific Information Requirements for Registration

2.2.1 Partnership Details - Form VAT 2

When registering as a partnership, each doctor will need to submit details of their name, home address, National Insurance number and signature. This is a legal requirement and ensures that all doctors listed on the Partnership Details form agree to their inclusion in the VAT registration application. If these details are not supplied, HMRC will not be able to process Applications for Registration.
2.2.2 GP Reference

To enable HMRC to process registration applications promptly, each doctor's unique GP reference number is required.

Where registration as a partnership is sought, the GP reference should be written on the Partnership Details form (VAT 2) against the name of each doctor applying to be included in the registration.

Where a doctor is applying to register as a sole proprietor, the GP reference should be clearly shown on the Application to Register (VAT 1) next to the doctor's name.

2.2.3 Business Activities

When describing business activities, doctors are advised to use the term "general practitioners" (not doctors). This will help HMRC to correctly classify applications.

2.2.4 Bank Details

Bank account details are requested on the Application to Register. HMRC needs these in order to make secure and timely payments, where due, directly to nominated bank accounts. If bank details are not provided, this can lead to delays in processing registration applications and in paying claims for VAT refunds.

3. VAT Liability

3.1 What is the VAT liability of goods and services supplied by doctors?

Comprehensive guidance on the VAT treatment of supplies of goods and services by doctors is detailed in Public Notice 701/57 Health Professionals.

3.2 Healthcare Services

3.2.1 Exempt Supplies

All primary health care, such as NHS services supplied by doctors under the General Medical Services contract introduced on 1 April 2004, is exempt from VAT. Where a doctor provides services using his or her professional skills, training and knowledge, these services are exempt from VAT.

Drugs or appliances that are personally administered, injected or applied to patients as part of medical treatment are also exempt.

3.2.2 Dispensed drugs

Drugs, medicines or appliances that are dispensed by doctors to patients for self-administration, are taxable for VAT purposes. This means that their value should be stated in the section dealing with taxable supplies on the Application for Registration (VAT 1).
Where doctors dispense drugs pursuant to an NHS authorisation, or requirement to dispense, the supply of drugs dispensed against an NHS prescription is zero-rated for VAT purposes. However, drugs dispensed against private prescriptions are standard-rated.

### 3.2.3 Other Standard-Rated Taxable Supplies

Certain services that doctors provide are taxable at the standard rate. Examples include:

- Signing passport applications.
- Medico legal services that are predominately legal rather than medical - for example negotiating on behalf of a client or appearing in court in the capacity of an advocate.
- Clinical trials or market research services for drug companies that do not involve the care or assessment of a patient.
- Paternity testing.

HMRC are currently consulting on how the decision of the European Court of Justice in the case of Dr Peter d’Ambrumenil may affect the liability of certain supplies. Further guidance about changes to the VAT liability of these supplies will be published in due course. In the meantime, existing guidance about the VAT liability of supplies should be used.

### 3.3 Other Supplies

Doctors should also check the VAT liability of any other income they receive. This could include rental income from hiring out rooms within the practise premises – perhaps to an alternative therapy provider.

For further advice about the liability of any supply, please see the HMRC website or contact the National Advice Service. Doctors should be aware that they may be asked to put details of their activities in writing so that a definitive VAT liability ruling can be given. This process may take some time, so doctors are advised to begin researching the VAT liability of their activities well in advance of the date their first VAT return is due to be submitted.

### 4. VAT Recovery

#### 4.1 How much VAT can doctors recover?

Doctors make a mixture of business supplies, some subject to VAT (taxable) and some not (exempt). It is a fundamental principle that VAT incurred on purchases can only be reclaimed if those purchases are related to taxable supplies. For example, drugs that are:
• Dispensed by VAT registered doctors are taxable for VAT purposes and the doctors will be entitled to recover the VAT incurred in the purchase of those drugs.

• Personally administered by doctors are exempt for VAT purposes and VAT incurred in their purchase is not recoverable.

Each registration will need to work out how much VAT it can recover using what is known as a “partial exemption” method. This normally involves:

• one simple calculation each VAT period; and

• an annual adjustment at the end of their tax year.

Further information about partial exemption can be found in Public Notice 706, which can be obtained from the National Advice Service or found on the HMRC website.

It is strongly recommended that doctors familiarise themselves with the partial exemption requirements. It is possible that, having considered the options, doctors may decide to negotiate a partial exemption special method with HMRC. If this is the case, it is recommended that the doctors contact the National Advice Service as soon as their registration has been processed.

4.2 Stock on hand at registration

When a doctor becomes registered for VAT, the practice may already hold a stock of drugs for dispensing and personal administration by the doctor.

Should doctors wish to recover the VAT on drugs in stock at the time of registration, they will need to calculate how much VAT has been incurred on those drugs when they register. They will also need to demonstrate that the drugs have been, or are to be, dispensed and not personally administered. The VAT that can be claimed on stock on hand should be included on the first VAT return submitted.

4.3 What books and records do doctors need to maintain?

Doctors need to maintain their records in order to support their VAT return declarations. Details of the records that need to be kept can be found in Public Notice 700/21 Keeping Records and Accounts, which can be obtained from the National Advice Service or accessed on the HMRC website.

It should be noted that records will be inspected periodically by HMRC to ensure that VAT declarations have been made correctly.
5. Who can I contact for further information?

5.1 General:

**Telephone:** If you have any queries about the information contained in this VAT Information Sheet please contact the HMRC National Advice Service on **0845 010 9000**.

The National Advice Service is available from Monday to Friday, 8am to 8pm (GMT) and will be able to answer both general queries and deal with enquiries relating to partial exemption and VAT liability.

**Email:** You can also [email](mailto:) your enquiry to the National Advice Service:

**Website:** For basic details about VAT - including registration - you are encouraged to look at the HMRC website [www.hmrc.gov.uk](http://www.hmrc.gov.uk).

5.2 Registration Service Helpline:

The telephone numbers for the registration helpline are as follows:

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<tr>
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<tr>
<td>01902 392265</td>
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<td>01902 392267</td>
<td>01902 392268</td>
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<tr>
<td>01902 392047</td>
<td>01902 392078</td>
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Please note that these numbers will only be operational with effect from 1 March 2006.
6. Annex A - Online Registration

Applications for Registration can be submitted online on the HMRC website.

This service enables doctors to register for VAT online (replacing the VAT 1 Application to Register) but doctors should note that the VAT 2 cannot be submitted online. A paper VAT 2 must be sent to the Wolverhampton Registration Unit, at the address shown above (section 2.1.7), if the legal entity to be registered is a partnership.

If an application to register for VAT has been completed online, an acknowledgement reference will be generated once the application has been submitted. Please write the acknowledgement reference at the top of the VAT 2 and on any other correspondence prior to sending it to the Wolverhampton Registration Unit.

Important Information for Online Registrations:

If a doctor chooses to register for VAT online, the doctor should enter the practice address when completing the business address field of the online form but note instead of the appropriate post-code for that address, the post-code WV1 4TZ should be entered.

Using this post-code means that the online system will automatically send the form to the Wolverhampton Registration Unit that will process all doctors' registration applications. On receipt of the online application, HMRC will change the post-code to that of the practice or nominated business address.

Doctors should check that the correct postcode is shown on their Certificate of Registration which will be issued by HMRC shortly after registration.

7. Annex B - Checklist of Documents

When contacting the National Advice Service, it may be useful to ask for the following documents.

Forms:
Application for Registration (VAT 1)
Partnership Details (VAT 2)

CD Rom: "Getting Started in VAT"

Public Notices:
The VAT Guide 700
Should I Be Registered For VAT? 700/01
Keeping Records and Accounts 700/21
Health Professionals 701/57
Partial Exemption 706
**NB:** VAT forms and Public Notices can be accessed via the HMRC website. Links have been included within this Information Sheet.