

PRIVATE AND CONFIDENTIAL



Health and care - VAT

For the Charity Tax Group

24 September 2026



Agenda

- Introduction
- Fundamentals
 - Legal framework
 - Reliefs and exemptions
- Recent developments
- Concessions
- Trip hazards
- Q&As

Presenting today



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The background of the slide is a complex digital graphic. It features a dark blue, textured surface with a grid of small, glowing blue squares. Overlaid on this are numerous small, rectangular video frames showing various scenes of people working, interacting, and using technology. A large, semi-transparent green rectangle is positioned in the center, containing the word "Framework" in white. The bottom of the image shows a city skyline at night with many lit-up buildings.

Framework

Legal framework

EC Principal VAT Directive / EXEMPTIONS

ARTICLE

132

abridged

Art.	132(1)	
	hospital and medical care and closely related activities	(b)
	the provision of medical care	(c)
	the supply of human organs, blood and milk	(d)
	services and prostheses by dentists and dental technicians	(e)
	services and goods closely linked to welfare	(g)
	services and goods closely linked to the protection of children and young persons	(h)
	the supply of transport services for sick or injured persons in vehicles specially designed for the purpose	(p)

Legal framework

VAT ACT 1994 / EXEMPTIONS

SCHEDULE

9

abridged

07

GROUP 7

medical care by qualifying practitioners	ITEM 1-3
hospital care and goods in connection with	ITEM 4
a deputy for a person registered in the register of medical practitioners	ITEM 5
human blood, tissue and derived products for therapeutic purposes	ITEM 6-8
welfare services by a charity, state-regulated agency or public body	ITEM 9
transport services for sick or injured persons in specially designed vehicles	ITEM 11

Legal framework

VAT ACT 1994 / REDUCED RATE

SCHEDULE

7A

abridged

08

GROUP 8

Contraceptive products

ITEM 1

09

GROUP 9

Welfare advice or information by a charity or state-regulated agency

ITEM 1

10

GROUP 10

Installation of mobility aids for persons aged 60 or over

ITEMS 1–2

11

GROUP 11

Smoking cessation products

ITEM 1

Legal framework

VAT ACT 1994 / ZERO RATE

SCHEDULE

8

abridged

12

GROUP 12

Qualifying goods dispensed to an individual for that individual's personal use on the prescription of an appropriate practitioner

ITEM 1

The supply to a disabled person for domestic or personal use, or to a charity for making available to disabled persons by sale or otherwise, for domestic or personal use, of qualifying goods or services

ITEM 2

The supply of qualifying works for disabled persons including to a charity

ITEMS 4–18

The supply of lifeline alarm services for disabled persons

ITEMS 19–20

15

GROUP 15

Supply of medical goods or an ambulance to an eligible body using charitable funds

ITEMS 5–7

The supply to a charity providing care or research of medicinal products

ITEMS 9–10

Reliefs and guidance

Medical services exemption

VAT Notice 701/57

The conditions:

- 1 Primary purpose is restore, protect or maintain the health of an individual
- 2 Wholly performed a medical professional on a statutory medical register; and/or
- 3 Wholly performed under the direct supervision of a medical professional

Examples:

- ✓ GP consultations and diagnosis
- ✓ Medical clinics
- ✓ Physiotherapy

Does not meet the test:

- Aesthetic purpose clinics
- Mortuaries
- Medical contracts delivered non-qualifying personnel (e.g. Talking therapy)
- Police and justice, where primary purpose is reporting (e.g. fit to detain)

The 'hospitals' exemption

VAT Notice 701/31

The conditions:

1

Primary purpose is restore, maintain or protect the health of an individual

2

Delivered by a qualifying regulated institution (e.g. hospital, hospice, nursing home or regulated laboratory)

Examples:

- ✓ Surgical procedures (in/out-patients)
- ✓ Pathology testing
- ✓ Palliative care
- ✓ Accommodation and meals for a child's parent

Does not meet the test:

- Residential care home
- Clinics and consulting rooms
- UKAS approved laboratories (e.g. covid testing)
- Hospital car parking or visitor meals

Welfare exemption

VAT Notice 701/2

The conditions:

- 1 Care or treatment (non-medical) or instruction designed to promote the physical or mental welfare of elderly, sick, distressed or disabled persons; or the care or protection of children and young persons; or the provision of spiritual welfare by a religious institution
- 2 For an individual
- 3 Provided by a qualifying body (a charity, a state-regulated private welfare agency, or a public body)

Examples:

- ✓ Personal care contracts
- ✓ Residential care
- ✓ Counselling

Does not meet the test:

- Medical care
- Unregulated welfare activities by a limited company (trading subsidiary)
- Supplies of welfare staff

Welfare reduced rate

VAT Notice 701/2

The conditions:

- 1 Welfare advice or information
- 2 Directly relates to the physical or mental welfare of elderly, sick, distressed or disabled people, or the care or protection of children and young people
- 3 By a charity or a state-regulated private welfare agency
- 4 Is not for a specific individual

Examples:

- ✓ Sexual health talk
- ✓ Stranger danger DVD

Does not meet the test:

- Sexual health talk by a public body
- Services or goods fall into welfare exemption
- Goods fall under zero rate (e.g. leaflets)

Drugs, medicines, aids for the disabled – Zero rate

VAT Notice 701/57 and 701/7

The conditions:

- 1 Customer is eligible to buy supplies at the zero rate
- 2 Goods are for the personal or domestic use of the customer
- 3 They are qualifying goods or services
- 4 Prescribed medicines are dispensed by a qualified pharmacist or practitioner

Examples:

- ✓ Adapted motor vehicles
- ✓ Assistive technology computers
- ✓ Wigs

Does not meet the test:

- Most hearing aids
- Dentures
- NHS funded agreements (excl. drugs)

Recent developments

Locum doctors

Revenue & Customs Brief 6 (2026)

Now exempt

- 1 Mandatory exemption. Follows recent Isle of Wight NHS Trust case
- 2 Only applies to GMC registered doctors
- 3 Must be a supply of staff
- 4 Has backdated and prospective effect

Examples:

- ✓ Recruitment business
- ✓ Umbrellas
- ✓ Secondments between charities

Does not meet the test:

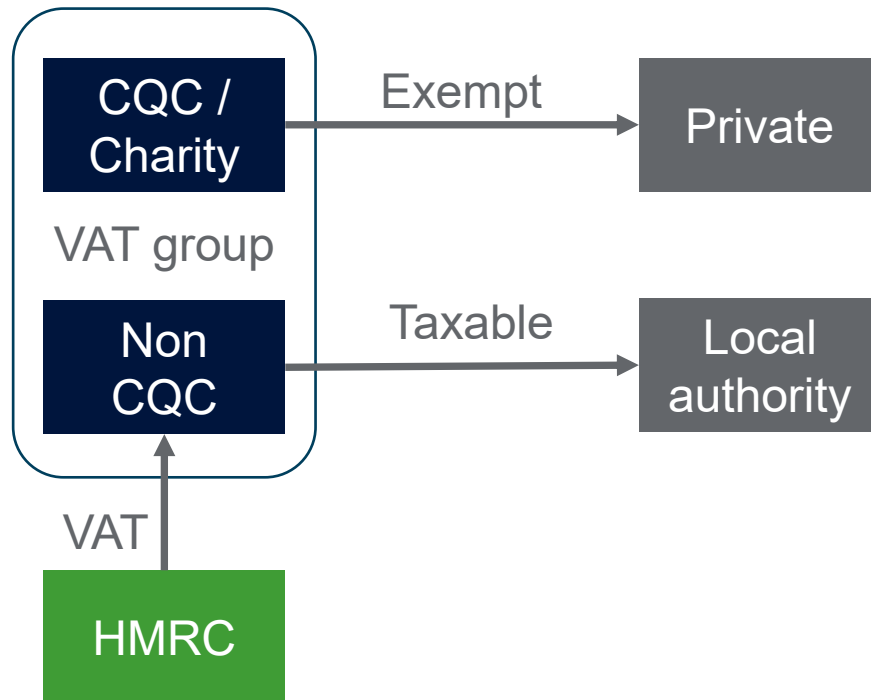
- All other clinical staff
- Recruitment agencies and DEMs

Action:

- ! Request suppliers submit claims
- ! Rolling 4-year window

Welfare planning scheme

“VAT grouping within the care industry” 24 April 2025



Now ‘tax avoidance’

- ❗ HMRC protection of the revenue powers
- ❗ HMRC strongly encourages amending
- ❗ Commissioners under pressure
- ❗ Litigation pending

Cosmetics

Various tax cases and HMRC activity

Tax cases

1	Illuminate Skin Clinics Ltd
2	Skin Rich
3	Advanced Hair Technology Limited
4	Graham (t/a Skin Science)

Exempt:

- ✓ Treatment of diagnosed conditions
- ✓ Reconstructive plastic surgery
- ✓ Preventative treatments

Not exempt:

- Non-referred 'psychological benefit'
- Purely aesthetic treatments

Action:

- ? Maintain referral records and evidence

Dispensing of medicines

Clatterbridge Pharmacy Limited v HMRC

The conditions:

- 1 Qualifying prescribed goods
- 2 For an individual's personal use
- 3 Dispensed by a qualifying person
- 4 Not part of a medical service
- 5 Is not excluded if dispensed **in** a hospital or nursing home

Zero rated:

- ✓ Take-home drugs
- ✓ Potentially discharge drugs
- ✓ Patient Group Directions (9 Oct 2023 to 31 Mar 2027)

Not zero-rated:

- In-patient drugs dispensed by a hospital pharmacy
- Drugs which are a cost component of medical care

Independent schools

HMRC VAT update - update 5 February 2026

Supplying education and welfare services together:

1

single or multiple supply?

2

If single, what is the predominant supply?

3

Welfare is secondary if:

- a school is providing education to a pupil
- the parent considers that they are buying education

Welfare:

- ✓ Day care services (e.g. playgroups)
- ✓ Usually, separate contracts for welfare
- ✓ Where education is ancillary

Not welfare:

- Activity based clubs
- Fee paying SEND schools and education

Concessions

Nursing Agency Concession

VAT Notice 701/57 para 6.6

Exemption conditions:

- 1 supply of staff
- 2 by an employment business; or
- 3 Nursing auxiliary directly supervised by a nurse/midwife; or
- 4 Nursing auxiliary in a qualifying institution; and
- 5 A nursing auxiliary duties must include medical care to patients

Application:

- ✓ Nurses to any customer
- ✓ Salary plus margin

Exclusions:

- Supplies by umbrellas or employment agencies
- Other clinical staff
- Unsupervised nursing auxiliaries in residential homes
- Retrospective application

Welfare Concession

HMRC Internal Manual VCHAR3540

Non-business treatment conditions:

- 1 Supplies made at below cost
- 2 Must be subsidised by at least 15%
- 3 Subsidised services available to all service users
- 4 Costs exclude CapEx, contingencies, free supply costs (eg volunteers, donated goods)

Usefulness:

- ✓ Access to charitable building and utilities reliefs
- ✓ May assist BNB-PE
- ✓ Can opt out

Other points:

- Opted out supplies very likely exempt anyway
- Cannot be utilised by TradingCo

Trip hazards

Staff v services

Mainpay Limited v HMRC

Staffing indicators:

- 1 'operational' direction and control rests with host
- 2 not regulated by CQC
- 3 no right of replacement or tools
- 4 patient liability rests with host
- 5 worker is in IR35

Services:

- ✓ Welfare / medical services contracts

Staffing:

- PSC or umbrella
- Clinician backfill

Risks:

- ! Vague terms
- ! Over-reliance on IR35 tests

Joint working

£750m UnitingCare Partnership – a tax disaster

Trip hazards:

- 1 creation of legal partnership – despite denial
- 2 appreciation of new company tax status
- 3 pass-through costs v's disbursements
- 4 sharing resource
- 5 grant status and beneficiaries
- 6 Funding offsets and barterers

Risks:

- ! Creation of unforeseen VAT costs
- ! Friction with partners
- ! Funding clawback/payback issues

The text "Hot off the press" is centered within a solid blue rectangular box. The background of the entire slide is a dynamic, abstract image featuring a series of curved, streak-like lines in shades of green, yellow, and orange, creating a sense of rapid motion or energy. In the top left corner, there is a decorative graphic of a blue staircase-like shape with small squares.

Hot off the press

Low care hospice

Court of Appeal of The Hague, 27-05-2026

Outcome

- 1 Hospice services were taxable
- 2 Medical services supplied by independent practitioners / agencies
- 3 Provided a package of services
- 4 Not medical, welfare or rental

Impact:

- ✓ Not binding in the UK
- ✓ ...but, HMRC may look at the case

Action:

- ? Consider impact and take advice

A green rectangular box with the word "Questions?" in white, serif font.

Questions?

THE POWER OF BEING UNDERSTOOD
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