

Dispensing Doctors/Contractors (DDs) and VAT Registration

As part of the recently agreed revisions to the GMS Contract (see the joint NHS Employers/GPC publication "Revisions to the GMS Contract 2006/07 - Delivering Investment in General Practice"), the Department will, from 1 April 2006, no longer pay an allowance to cover the VAT payable on purchases of drugs, appliances and containers (hereinafter referred to as a "VAT allowance") to those DDs who are not registered for VAT with Her Majesty's Revenue and Customs (HMRC).

As a result, from that date, any DD who wishes to be repaid any VAT incurred on his dispensing activities will need to register for VAT with HMRC.

VAT registration would normally take effect from the date on which the DD's taxable (including zero-rated) supplies first exceeded the VAT registration threshold. However, DDs can claim retrospective exemption from registration and register with effect from 1 April 2006, provided the majority of their taxable supplies are zero-rated.

DDs who have not so far registered for VAT will have received VAT allowances under the terms of the Statement of Financial Entitlement (SFE) and the former Statement of Fees and Allowances (SFA). Such payments were conditional upon their not being registered for VAT (e.g. SFE paragraph 17.3(e)) to avoid duplicate claims.

In these circumstances, any DD who is considering applying for backdated VAT registration (without requesting retrospective exemption) and making a backdated claim for a VAT refund for past periods should be aware of the following:-

- once a backdated registration application has been processed by HMRC, the DD will have rendered himself registered for VAT for the whole of the relevant period (the period which starts with his effective date of registration);
- in doing so, the Department of Health take the view that by his own actions the DD will have re-opened the question of his entitlement to receive any VAT allowances which were paid to him under the terms of the SFE/SFA during the relevant period and rendered himself ineligible to receive them;
- in these circumstances, the Department will expect and require PCTs to raise overpayments in respect of the total amounts incorrectly paid (even where the payments made to the DD under the SFE/SFA exceed any refund claimed from HMRC) and to pursue recovery of any sums that have been so overpaid.
- backdated VAT registration would also require a DD to account for any output tax due to HMRC from his effective date of registration

Any DD who has already asked HMRC to consider a backdated VAT registration may wish to contact them for advice on how to retract that element of the application and apply for retrospective exemption instead. HMRC have a National Advice Service that can be accessed by telephoning: 0845 010 9000.