

Veronica Donnelly, VAT partner at Campbell Dallas and recommended VAT specialist in the aesthetic industry, addresses misconceptions about VAT in aesthetics...

VAT Misconceptions

I frequently get approached by aesthetic practitioners wanting to know how to treat VAT in their businesses. The usual start to the conversation is '*Should I be registered for VAT? Most of the businesses I know aren't?*'. Whilst I agree it is useful to know what others in the sector are doing this does not mean that your VAT treatment will be the same, nor necessarily will your VAT registration position.

Basically you are only *required* to register for VAT if you make taxable (VATable) sales which exceed the annual VAT registration threshold, currently £82k. This is not total turnover, this is taxable turnover only and so exempt turnover is not included. That said how do you know what is taxable and what is exempt? VAT law states that you must pass two conditions to make an exempt supply; firstly the person providing, or supervising, the treatments must be a on a UK medical register, and secondly, the services provided to the client, must comprise the provision of medical care. Medical care is defined by HMRC as services with the aim of protection, maintenance or restoration of health of the person concerned. If you meet both of these tests your services are exempt; if you do not, they are cosmetic treatments and subject to VAT. However, even businesses which understand this often fail in their record keeping to evidence why the treatments are exempt. If you don't keep adequate case notes how are you going to prove to HMRC that you are providing medical care? It is important to note that if you are VAT registered and have made errors on your returns HMRC have a four year time limit for issuing assessments. If you are not VAT registered and should have been, then HMRC will backdate your VAT registration to the earliest date at which you exceeded the registration threshold and you will be due to account for VAT from that date.

But not all staff will necessarily be on a medical register so how can I make exempt supplies. If those staff are supervised by someone who is on the appropriate register, then they meet the first test above. You need then only look at the services themselves to determine the VAT liability. Bear in mind HMRC have limits on the number of staff and hours worked for each supervisor so you still need to check that you operate within those limits.

Other questions relate to VAT on the sale of products. If a product is sold on its own it will be a taxable sale. If it is provided to the client as part of an exempt medical treatment it will probably be exempt. Same customer, same product, but different supplies. Each business needs to understand how and when it sells products to customers to know the VAT treatment.

There is also great confusion over VAT on prescription drugs. This is a very complicated area. When you supply these drugs to your customers they might be taxable, exempt or zero rated depending on whether you are supplying them

separately from, or as part of, treatments, and also whether you employ, or are, a registered pharmacist. It is worth noting that VAT liability of the original supply of the drugs may differ from the VAT liability of your supply to the client. Too often I have practitioners tell me that they don't charge VAT on the prescription drugs because they don't get charged VAT! This might be correct if the drugs were prescribed directly to the patient, who paid the pharmacist for them, in which case the practitioner is only supplying services and is not supplying the drugs. However, it is likely the pharmacist is incorrectly zero rating the supply of drugs to the patient as he/she can only zero rate drugs prescribed for home use by the patient; use as part of a medical treatment by a clinic does not qualify for zero-rating.

Equally, VAT on the purchase or lease of equipment can be a problem area. For example, VAT will normally be chargeable on the purchase of a new laser and the value tends to be quite large. Can the VAT be recovered? As ever the answer will be 'It depends'. VAT on the laser will be recoverable in full if the laser is only used for taxable cosmetic treatments. If it is only used for exempt treatments the VAT is not recoverable at all. If it is to be used for both taxable and exempt treatments then some of the VAT will be recoverable to the extent of the taxable use. Knowing how much VAT is recoverable may determine which deal you can best afford, but to understand how much VAT is due on your purchases you need first to understand what proportion of your sales are taxable or exempt.

The point of all this is that VAT is a specialised subject, and the aesthetic industry is subject to ongoing scrutiny by HMRC. It is not a good idea to hide your head in the sand; you can still be seen! Not all accountants are comfortable advising on VAT and some are not qualified to do so, so take advice from a VAT specialist and set up your VAT accounting correctly from the outset.

If any of these points have left you thinking that your VAT accounting may be wrong [please speak to our VAT expert for advice on how to get it right.](#)



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Veronica Donnelly is the VAT partner at Campbell Dallas and leads the VAT practice for the firm. She has been a VAT advisor for 30 years, working in HMRC and two of the 'Big 4' accountancy firms. Her work includes strategic planning as well as assisting with compliance issues and negotiations with HMRC locally and nationally. Veronica is a Chartered Tax Advisor and Associate of the Institute of Indirect Taxation and speaks regularly at tax conferences

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