

Indirect Tax Alert

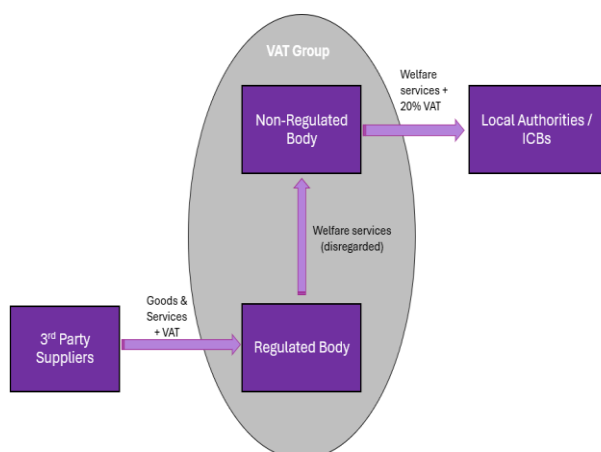
HMRC Revenue and Customs [Brief 2 \(2025\)](#): outlines they will no longer accept a certain VAT grouping structure used by many businesses in the care sector

May 2025 - Update

On Thursday 24 April 2025, HMRC published [Revenue & Customs Brief \("RCB"\) 2 \(2025\)](#) outlining that they will no longer accept a certain VAT grouping structure used by many businesses in the care sector.

Following on from our previous indirect tax alert issued last month, we set out further insight into what this RCB means, and the steps affected providers should consider.

To recap, this brief is aimed at structures that involve the use of a non-regulated entity to provide care services to local authorities and/or integrated care boards ("ICBs"). The typical structure is shown below.



When using the structure, new contracts are entered into between the non-regulated entity and the local authorities/ICBs and existing contracts are novated to the non-regulated entity. Thereafter, only future supplies by the non-regulated entity will be subject to VAT at the standard rate which enables the VAT group to recovery a proportion of VAT on its costs.

When implemented in this manner, this has previously been accepted by HMRC in writing and has not been challenged during subsequent HMRC VAT inspections.

What has changed?

This RCB signifies the end of HMRC's acceptance of the structure and makes it clear that they now view it as unacceptable tax planning. Where it is being used HMRC will exercise their existing powers to refuse new VAT applications and to remove entities from VAT groups which will negate any benefit going forwards.

If the structure has been implemented in line with the approach HMRC previously accepted there should be little risk of any historical savings been challenged.

HMRC has asked VAT registered providers to review their current VAT position and seek professional advice and if they believe their arrangements fall within the description in the RCB, to notify them of this via a specified email address.

- CAGetHelpOutOfTaxAvoidance@hmrc.gov.uk; and
- include the words 'VAT grouping' in the subject of your email.

Whilst some may interpret the RCB as leaving open the prospect for some providers to continue to operate the structure, it is our view that HMRC has made it clear that this planning is no longer acceptable and will be challenged. Even if HMRC's position was successfully contested, it would seem unlikely that local authorities/ICBs would continue to contract with non-regulated bodies in future.

Transitional period

To 'unwind' the structure, it will require contracts between the unregulated entity and local authorities/ICBs to be novated to the regulated entity which will take time which HMRC may not appreciate. Until this has occurred, ongoing supplies of care by the non-regulated entity will remain standard rated and VAT should continue to be charged which local authorities and ICBs should continue to pay.

That said, prompt notification to HMRC of use of the structure should occur and following this it will also be necessary to assess what any changes will mean to your wider VAT recovery position including the operation of the capital goods scheme, if applicable.

If you have any questions or concerns regarding the above, please feel free to get in touch with us using our contact details below.



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