



HM Revenue
& Customs

Local Authority and NHS Integrated Care Boards FAQ Pack August 2025

Use of VAT grouping within the care industry



This document should be read in conjunction with Revenue and Customs Brief 2(2025). When we refer to VAT grouping in this briefing, we refer to the VAT grouping avoidance structures described in that document.

Which Local Authorities (LAs)/NHS Integrated Care Boards (NHS ICBs) will be affected by this?

Any LAs or NHS ICBs that have contracted with state-regulated care providers using these arrangements may be affected. Typically, this will be evident where contracts have been transferred to another party who now bills at the standard VAT rate - rather than at the exempt rate - and is not the actual provider of care.

Now the RCB has been issued will the LAs/ NHS ICBs be able to recover VAT charged to them by unregulated entities?

The LAs/ NHS ICBs will still be able to recover the VAT charged to them by VAT registered unregulated entities provided all the normal conditions for reclaiming VAT are complied with, e.g. a valid tax invoice is held, it relates to a supply made to the LA/ NHS ICB which is eligible for a refund of VAT. Whether a VAT grouping tax avoidance arrangement was in place or not does not impact on this.

Does the care provider have to stop charging VAT immediately?

No, they must continue to follow the VAT liability appropriate to the supplies they make under their contracts. If the supplies are still being made by the unregulated entity, and it is VAT registered either as part of a VAT Group or separately, then VAT must continue to be charged.

Should LAs/ NHS ICBs pay the VAT that the providers charge if the providers are using this VAT grouping structure?

LAs/ NHS ICBs should continue to pay any VAT that is charged by the care provider under normal VAT rules.

This will include where the provider is using this VAT grouping structure, as the provider must still charge VAT whilst the supplies are made by the unregulated entity.

However, the LAs/ NHS ICBs must be satisfied that the contractual arrangement reflects their agreement to be supplied by an unregulated provider. A care provider cannot unilaterally impose such a contractual change.

Even with the agreement of both parties HMRC do not accept that novation purporting to have retrospective effect can change the VAT liability of supplies already made.

Who is responsible for exiting the avoidance structure?

The care provider is responsible. However, we urge LAs/ NHS ICBs to assist where possible.

a) What the LAs/ NHS ICBs can do to assist?

- (i) Refuse to enter into new contracts/ renew existing contracts where the LA/ NHS ICB is contracting with the unregulated care provider which is part of a VAT group.
- (ii) Work with the care provider to novate the contracts back to the regulated entity – we do not expect every contract to be novated immediately and it is for each LA/ NHS ICB, in conjunction with the care provider, to decide whether this is an appropriate way forward. This is not something HMRC can influence. It is a matter for each LA/ NHS ICB and the care provider.

b) What can the care provider do?

- (i) Work with the LAs/ NHS ICBs to novate the contracts back to the regulated entity.
- (ii) Contact HMRC to arrange to remove the appropriate company(s) from the VAT group.

c) What can HMRC do?

- (i) HMRC are in the midst of a programme reviewing and investigating all instances where it is known or suspected that an avoidance scheme is in operation within a VAT group arrangement. Depending on the composition of the VAT group, where applicable, HMRC will either disband or remove company(s) from the group. This does not require contract novation, nor does it involve input from the LA/ NHS ICB. It is VAT grouping which causes the tax advantage and amending the VAT group is the route HMRC are taking, where appropriate.

- (ii) HMRC can, and will, act, when appropriate, to prevent unregulated providers joining or forming VAT groups with regulated providers.

How will LAs/NHS ICBs recognise when a care provider has implemented this tax avoidance arrangement?

Typically, this will be evident where contracts have been transferred to a party other than the state-regulated care provider, who now bills at the standard VAT rate rather than at the exempt rate and is not the actual physical provider of care.

What are the repercussions for LAs and NHS ICBs involved with these tax avoidance arrangements and should they cancel contracts with care providers who operate these arrangements?

Provided there are no errors in how the scheme has been implemented there is no direct action HMRC will take in relation to the LAs and NHS ICBs. Cancellation of contracts is a decision for each LA/ NHS ICB taking into consideration any code of practice/framework agreement and governance processes that they are required to adhere to when an arrangement is regarded as tax avoidance by HMRC. There may be circumstances where a care provider exits the tax avoidance arrangements but is still in a position where VAT is correctly chargeable on their supplies to the LA/ NHS ICB. This would be the case where the VAT group is disbanded, or the relevant parties are removed from it, but the supplies to the LA/ NHS ICB, under the contract terms, continue to be made by the unregulated entity, if it remains separately VAT registered. However, LAs/ NHS ICBs would need to think carefully about how they could obtain reassurance from the care provider that they are no longer using these tax avoidance arrangements.

How would the LA/ NHS ICB obtain reassurance from the care provider that they are no longer operating the tax avoidance arrangement where they are still charging VAT on their supplies?

The care provider will have correspondence with HMRC that provides this information. The actual information will be dependent on the group structure. As an example, a VAT group which only comprised the regulated entity and the unregulated entity would be disbanded and, assuming the unregulated entity continued to make the supplies of welfare care, it would then be registered for VAT with its own new VAT registration number. Where the VAT group comprised a number of companies and only one company needed removing from the VAT group, there will be correspondence to show which company left the VAT group and when this occurred.

When will HMRC remove relevant parties from a VAT group?

Where these avoidance structures are identified, any termination notice issued to remove relevant parties from VAT groups will take effect prospectively once a full investigation is complete.

What will happen if HMRC receive a new application to form or join a group?

HMRC will, where necessary, refuse VAT group registration applications designed to implement such an avoidance structure.

Will LAs/ NHS ICBs be able to find out from HMRC whether a VAT Group's affairs have been reviewed under the terms of the RCB and what the outcome was?

No, taxpayer confidentiality prevents HMRC from disclosing specific care provider affairs with third parties.

Will HMRC suspend its compliance programme / decision making if the de-grouping decisions are being challenged in the courts?

No. Should litigation ensue then until that process is complete HMRC will maintain its compliance programme and apply its policy to new group applications and existing VAT groups making decisions accordingly. Those decisions will be separately appealable. Where HMRC remove an entity from a VAT group that position is effective from the date specified in the termination notice and will remain the position whilst any appeal proceedings are ongoing.

Would it help for LAs/ NHS ICBs to provide details of any care providers they are aware of who appear to be operating these arrangements?

If you have information relating to any care providers who appear to be operating these arrangements, please send details to CAGetHelpOutOfTaxAvoidance@hmrc.gov.uk and include VAT Grouping in the title of the message. We will treat any information from you in confidence.

Please read factsheet [CC/FS72: 'Corresponding with HMRC by email'](#) before contacting us.