

Tax



Developing cohesive tax management strategies to both internally generate an investment pot that will fund longer term development initiatives and ensure that tax risks areas are managed.

KPMG's tax teams comprise technical specialists that understand the NHS. Over recent years our teams have helped individual NHS clients to identify savings, and avoid costs, of over £1 million in VAT and taxes. For large NHS organisations, these sums can be even greater. Savings of this magnitude can support the internal generation of investment funds that will help boards successfully tackle the challenges of the next five years.

“Tax can affect NHS organisations like any other corporate body. As a result, KPMG’s healthcare team includes dedicated tax professionals. Their job is to help our NHS clients develop tax strategies that contribute to the broader objective of delivering better patient care.”

Anant Suchak, Partner

Too often, tax is an afterthought in the NHS. This needs to change. Tax is currently a cost to every health body:

- VAT cannot be fully recovered and can be a material cost in particular for transactions, capital projects and non-pay revenue expenditure on goods.
- Employers' NIC and pension contributions are a significant cost, and compliance with employment tax legislation can be an administrative burden.

- Health bodies are increasingly considering operating in areas, and under structures, not covered by their corporation tax exemptions, in particular, through the formation of subsidiary companies and partnerships.

Tax is also a risk management issue :

- Given the changing legislative and competitive environment, all health bodies should now review the impact tax can have on their chosen markets and strategies.
- HMRC is taking an increasingly inquisitorial attitude with NHS bodies.

Credentials

Cost Reduction

KPMG analysed the current pay and non pay expenditure profile, and reviewed current projects being undertaken at an NHS Foundation Trust. This work identified nearly £1million of potential VAT savings and £0.5 million of potential employment tax savings for the Trust. VAT savings have now been secured, with HMRC approving our analysis and calculations. The employment tax savings arose from a salary sacrifice arrangement and are currently being implemented.

We recommend that all Trusts consider how to reduce tax costs. As an example, salary sacrifice schemes, for Trusts with 5,000 employees and assuming a modest take-up, have the potential to deliver savings of £1million for employees, and £0.8 million for the Trust.

Risk Management

At a recent payroll tax review HMRC estimated one of our NHS Foundation Trust clients to have a tax cost of over £1 million in respect of PAYE not deducted. KPMG negotiated with HMRC and successfully reduced this amount to nil.

We have recently met with HMRC and established that they are holding significant potential overpayments of PAYE and NIC for Trusts – we are working with a number of Trusts to obtain a repayment from HMRC.

We recommend that all Trusts should undertake an appraisal of their current tax profile, including a review of their systems and processes, to help ensure that any risk areas/areas of opportunity are identified and can be remedied in advance of any HMRC review. Remedial action in advance of a review will help to reduce tax penalties.

- HMRC is allocating relationship managers to Trusts to perform tax health checks that ensure that the right amount of tax is collected; NHS organisations can therefore expect both their processes and controls, to identify where tax is due and determine the amount to be paid, to be under the spotlight.

An understanding of how VAT, corporation tax and people taxes entwine is also important since a VAT saving in one area has the potential to create a corporation tax liability in another. We believe that there is now a need for NHS organisations to develop more cohesive tax management strategies to help ensure that VAT and tax risks are reduced, and opportunities to reduce costs are enhanced.

Our proposition is aimed at the following areas:

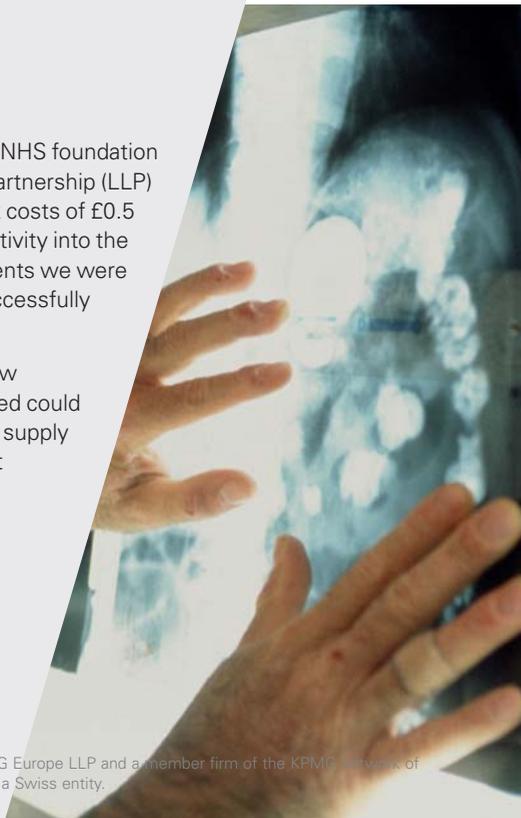
- Assisting you to minimise tax costs and maximise your revenues.
- Ensuring compliance with tax legislation.
- Ensuring that both tax costs and tax opportunities are identified as you consider organisational change, service reconfiguration and estates efficiencies.

Organisational Change

As part of a joint venture arrangement, another of our NHS foundation Trust clients was considering using a limited liability partnership (LLP) as the delivery vehicle. KPMG identified additional tax costs of £0.5 million that would have arisen out of the transfer of activity into the LLP. Through careful restructuring of these arrangements we were able to agree the revised position with HMRC and successfully limit the impact of this tax cost.

An NHSFT is considering extending its reach into a new marketplace, the way in which its services are delivered could either make the supply VATable or exempt – a VATable supply could render the service more expensive and thus not competitive in the market.

We recommend that all Trusts considering organisational and structural changes need to check at the outset if tax will be an additional cost. An identified tax charge can at least be factored into the commercial appraisal of ventures, whilst an unidentified tax charge can be more problematic once the venture is up and running.



“KPMG provided commercially sensible and grounded advice, rather than fanciful theoretical structuring which frequently I have received from tax advisers, and which all too frequently proves unachievable when tested.”

Finance Director, Euromedics

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“KPMG’s service offered is of a very high standard. They have provided us with advice on all our capital schemes and partial exemption and this has enabled us to optimise our VAT reclaims. They have particularly added value in areas outside core services. This includes securing a retrospective VAT refund in relation to catering - something that was not identified by our previous advisors.”

Liz Leishman, Financial Accountant, Bedford Hospitals NHS Trust

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