



VAT and Value Shifting Consultation

The National Community Hearing Association (NCHA) is the professional representative body for community hearing care providers in the UK.

We welcomed the opportunity to meet with officials on 19 March 2021 which helped us understand the background to this consultation. We submit our feedback below and answer consultation questions that are applicable to the sector.

We look forward to reading about the outcome of this consultation and hope to be able to have the opportunity to comment on any proposed changes ahead of legislation to identify any unintended consequences for healthcare.

Our response

The NCHA supports the HMRC objectives to address value shifting and ensure there is a “level playing field” for all businesses.

Although the consultation makes one reference to exempt supplies, and does refer to bundling of goods and services, it focusses on bundling of goods that are zero-rated and standard rated, especially those which can be sold separately.

This scenario is clearly different from the essential combination of clinical services and medical devices in healthcare settings.

In hearing care for example, services (exempt) and medical devices like hearing aids (standard rated) are necessarily ‘bundled’ because they cannot be supplied separately – e.g. to support patients with a hearing loss, hearing aids have to be fitted, customised and adjusted to each individual and fine-tuned in the light of lived experience. Furthermore, because hearing loss is a long-term condition and slowly progressive in most adults, the package of health care purchased goes far beyond the clinical aspects of the immediate fitting and aftercare can last for many years including addressing comfort issues, wax, refitting and retuning.

In healthcare there are also likely to be clinical reasons for any differences in the proportion of exempt services to standard rated products. For example,

this might be because some providers manage people who on average have more severe and complex hearing losses, or patients who on average need more rehabilitative support etc.

We understand how the proposals in this consultation might help address value shifting where goods are bundled or where services are bundled out of choice. However, in healthcare we are concerned that any complex or overly prescriptive apportionment methods could increase administrative costs for providers without making a material difference to the VAT position. These costs are ultimately borne by the end user so could inadvertently be regressive as well as inequitable for people who have a hearing disability.

Whilst we support the principles underpinning the consultation, we do not believe value shifting is an issue in the hearing sector and therefore that any changes to VAT procedures should avoid increasing administrative costs for the healthcare providers where exempt supplies and standard rated products are inextricably linked.

In our view, healthcare settings are not analogous to retail businesses that only supply goods where there is the potential for value shifting. Nevertheless, we have attempted to respond to the consultation questions which apply below. Please do not hesitate to contact us if you have any queries or we can help in any way.

Q7.

a. Does your business sell bundles where none of the items in the bundle are also sold separately?

Yes.

b. If yes, what goods or services are involved?

The supply of clinical services which are exempt from VAT combined with medical devices (hearing instruments) which are standard rated.

c. Are these bought in or developed (or partly developed) in-house?

Clinical services are provided by registered clinicians or trained staff working under their supervision and medical devices (unfitted and unprogrammed hearing aids) are generally sourced from major hearing aid manufacturers.

Q8.

a. Do you use a cost-based apportionment?

The UK hearing sector includes providers of all sizes from sole traders and small independent businesses to family chains and large multiple location corporate providers. Some of these businesses adopt a cost-based apportionment and some use Separately Disclosed Charges (SDCs).

b. If yes, how do you calculate the costs of any goods or services that are developed (or partly developed) in-house?

As we are responding on behalf of a sector, we are not able to answer specifics here.

c. Do you include overheads or indirect costs e.g. transportation or refrigeration? Please provide details.

As we are responding on behalf of a sector, we are not able to answer specifics here. However, all costs will be included in determining the allocation of overheads to both the hearing instrument and service elements of the combined supply.

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