


HMRC briefing on VAT groups in residential care: Concerns and actions

01 May 2025  Peter Ware, Clare Auty and Andrew Noble

HMRC have recently issued a briefing note expressing concern with certain arrangements in the residential care sector involving the use of VAT groups, in [Brief 2 \(2025\): the use of VAT grouping within the care industry](#), 24 April 2025.

HMRC have been considering VAT group structures in the provision of care and/or welfare which use both:

1. a care provider which is not state-regulated – meaning they are not registered with the Care Quality Commission (CQC) in England or the equivalent bodies in Northern Ireland, Scotland and Wales; and
2. a care provider that is state-regulated.

These sorts of arrangements have been used in the last few years by some care providers in their contracts and arrangements with [local authorities](#) and/or NHS [Integrated Care](#) Boards (ICBs), to seek to increase input VAT recovery for the care providers on their costs.

The arrangements may include, among other things, novating existing contracts so that going forward the party contracting with the local authority or the ICB is not state regulated and so charges VAT to the local authority or the ICB, while the day to day care may still, in effect, be provided by another regulated member(s) of the care provider's group.

HMRC's concern

HMRC say in this Brief that they have identified a growing use of VAT grouping structures by state-regulated care providers to recover VAT on costs that relate to supplies of welfare services that would otherwise be exempt from VAT. Among other things the Brief says as follows:

"...These structures incorporate an unregulated entity into the supply chain between the state-regulated provider and the local authority or NHS ICB to which the supply is made. Identical supplies made to private individuals remain exempt from VAT.

HMRC consider these VAT grouping structures to be a form of tax avoidance and will take the following actions with immediate effect..."

What actions will HMRC now take?

HMRC say that they will consider the following next steps and actions in connection with these sorts of arrangements:

1. Where necessary, refuse new VAT group registration applications that are designed to implement and facilitate these VAT grouping structures;
2. Immediately launch a programme to review and investigate all instances where it is known or they suspect that an avoidance scheme is in operation within a VAT group arrangement.

If you are considering entering into these sorts of arrangements, or already have existing arrangements of this type, please speak to your regular tax/VAT advisers, given that HMRC's view in this Brief is that they consider the arrangements to be a form of [tax](#) avoidance.

Contact



Andrew Noble

Partner

andrew.noble@brownejacobson.com

+44 (0)121 237 3952



Clare Auty

Partner

clare.auty@brownejacobson.com

+44 (0)121 237 3943

Related expertise

Later living

Social care