

Dear Colleague

**GENERAL MEDICAL SERVICES STATEMENT OF  
FINANCIAL ENTITLEMENTS FOR 2011/12  
CHAPTER 18.5 – DISPENSING  
ADVANCE NOTICE OF WITHDRAWAL OF  
CONCESSION ON REIMBURSEMENT OF VAT**

**Summary**

1. This Circular provides advance notice of an amendment which is to be introduced into the Statement of Financial Entitlements (SFE) for GMS Contractors at Chapter 18-Dispensing to take effect from 1 July 2011, so that practices affected by the change may where appropriate take timely action to register for VAT.

2. The amendment will be to delete in its entirety the current provision at Chapter 18.5, and any other reference to that paragraph which reads:

18.5 Unless a dispensing practice is registered with Customs and Excise for Value Added Tax (VAT) purposes (normally when a registered pharmacist is employed for dispensing), a VAT allowance shall be paid to cover the VAT payable on the practice purchases of drugs and appliances and containers. The allowance shall be calculated as a percentage both of the basic price less any discount applicable under schedule 1 and of the container allowance equivalent to the rate of VAT in force on the first day of the quarter in which the items are dispensed.

3. A new paragraph 18.5 will be introduced to read as follows:

22 March 2011

**Addresses**

For action

Chief Executives NHS Boards  
Dispensing General Medical  
Practitioners

For information

Director of Practitioner Services  
Division, NHS National Services  
Scotland

**Written enquiries to:**

Kim Crozier  
1 East Rear  
St Andrew's House  
EDINBURGH  
EH1 3DG

Fax: 0131-244 2074

NHS Circular:  
PCA(M)(2011)6

A VAT allowance shall be paid to cover any VAT payable on the purchase of any products listed below for personal administration under a GMS contract:

- vaccines, anaesthetics and injections;
- the following diagnostic reagents: Dick Test; Schick test; Protein Sensitisation Solutions; and Tuberculin Tests (i.e. Koch Test, Mantoux Test, Patch Test and Diagnostic Jelly);
- intrauterine contraceptive devices (including drug- releasing IUCDs, contraceptive caps and diaphragms);
- pessaries which are appliances; and
- sutures (including skin closure sutures).

4. Transitional arrangements will apply at the discretion of the Health Board concerned in respect of any particular dispensing practice where the Board anticipates that the requirement to dispense will be time limited. This may apply where for example an application has been made before 1 April 2011 to open a pharmacy to serve the patients currently served by the dispensing practice concerned. In such circumstances the Board may agree to temporarily continue the VAT reimbursement arrangements in place at 31 March 2011.

5. As a consequence of these planned amendments dispensing practices who are not registered for VAT and who are not subject to the transitional arrangements described above will therefore no longer be reimbursed their VAT costs on dispensed drugs and appliances, outwith the exemptions listed above. **Non VAT registered practices expecting to continue as dispensing practices are therefore advised to consider without delay voluntarily registering for VAT so that they may be eligible for recovery of VAT through HM Revenue and Customs in the normal way.** HM Revenue and Customs have issued VAT Information Sheet 05/2011 to provide affected practices with appropriate guidance on the registration process. It remains the case that dispensing practices whose zero rated dispensing income together with any other taxable income exceeds the VAT registration threshold (currently £70,000) are required to register for VAT on a compulsory basis.

6. To help dispensing practices with set up costs in adapting to the new arrangements a one off VAT registration support payment of **£3000** will be paid to all dispensing practices not registered for VAT at 1 April 2011 and not subject to the transitional arrangements described above with their April 2011 dispensing paid June payment.

7. This amendment to the SFE will bring arrangements for Scottish practices on VAT reimbursement into line with existing provisions in England and Wales- and has been agreed with the Scottish General Practitioner's Committee. The revised provisions will be incorporated in the SFE for 2011-12 in due course.

### **Action**

8. NHS Boards are requested to:

- bring this Circular to the attention of all dispensing GP practices in their area and their Local Medical Committee for the attention of the Secretary of the GP sub-committee, and,

-advise PSD as soon as possible of any dispensing practices who may be subject to the transitional arrangements detailed above.

9. Dispensing practices not currently registered for VAT are advised to consider doing so without delay.

Yours sincerely

FRANK STRANG  
Deputy Director, Primary Care Division