



# Navigating VAT issues in the UK care home sector

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The UK care home sector faces a unique set of VAT challenges due to the blend of exempt and taxable supplies involved in its operations. Careful VAT planning and compliance are essential to avoid potential challenges from HMRC.

## Spotlight 70: VAT grouping structure arrangements

Care homes should be particularly wary of the issues raised in HMRC's Spotlight 70. It is clear that HMRC is actively targeting VAT group structures designed to convert VAT exempt welfare services into taxable supplies in order to reclaim input VAT – especially on high-cost items like catering or property. These arrangements typically involve shifting contracts to an unregulated entity within a VAT group, which then subcontracts the welfare services back to the regulated provider.

While this may appear to unlock VAT recovery, HMRC considers such an arrangement to constitute tax avoidance and is using its powers to refuse or dismantle such arrangements. Care providers engaging in or considering these arrangements risk VAT assessments and financial penalties and as well as reputational damage and future restrictions on VAT group participation.

## Key VAT considerations

- **Exempt supplies:** care services provided in registered care homes are typically VAT exempt under Schedule 9, Group 7 of the Value Added Tax Act 1994. While this benefits residents, it restricts the ability to recover input VAT on related purchases and services.
- **Partial exemption complexity:** care homes often engage in some taxable activities (eg letting rooms to staff, catering for visitors, or providing hairdressing services). This results in partial exemption status, requiring detailed input VAT apportionment and regular calculations to ensure compliance.

- **Capital expenditure:** construction and refurbishment projects are major VAT risk areas. New builds may be zero-rated if they qualify as dwellings, but most care home facilities do not meet the required tests. Irrecoverable VAT on construction or fit-out costs can be significant without careful planning.
- **Third-party services:** outsourcing functions such as catering, housekeeping, or agency staffing can lead to additional VAT costs, especially when the care home cannot recover input VAT on these standard-rated services.
- **Incorrect VAT treatment:** misclassifying income or failing to recognise mixed supplies can result in VAT liabilities, penalties, or lost recovery opportunities. Examples include charging VAT on exempt care fees or failing to apply VAT where required on ancillary services.

### Top tips for managing VAT in care homes

- **Plan early for capital projects:** engage VAT specialists during the design and procurement phase of building works to assess potential zero-rating and avoid costly errors.
- **Review all income streams:** assess whether any services are taxable (eg beauty treatments and staff accommodation) and ensure correct VAT treatment.
- **Maintain robust records:** good documentation supports input VAT recovery and protects against HMRC challenges, especially under partial exemption rules.
- **Conduct partial exemption reviews:** monitor and adjust apportionment methods annually to maximise VAT recovery and comply with HMRC requirements.
- **Train staff on VAT basics:** ensure finance and operational teams understand the VAT implications of the services provided and purchased.

### How we can help

Effective VAT management in the care home sector requires a proactive and informed approach. Seeking specialist advice where needed can reduce costs, enhance compliance, and safeguard the financial health of your organisation.

Whether you are facing a routine query or require assistance with a complex dispute, we have extensive experience of managing and resolving compliance issues and can provide the strategic support you need. Our team consists of experienced experts, some of whom have worked for HMRC, who can assist you to achieve a swift and effective outcome.

If you would like to discuss anything, please contact Michelle Sloane or Jasprit Singh.

### Contacts



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