Are you looking for VAT relief on your supply of staff?

Summary of HMRC VAT concessions

July 2026

VAT relief for supplies of staff can be a complex area

This guide summarises the key issues and considerations for recruiters and employers in the private, non-profit and public sector.

Key definitions

Supply of staff

A supply of staff occurs when you provide another person with the use of an individual, who is either contractually employed, or otherwise engaged by you, in return for a consideration.

The individual supplied would normally come under the day-to-day direction and control of the organisation you've supplied them to (the 'host'). Day-to-day control equates to operational control.

Operational control

Operational control means having oversight over when, where and what work the individual performs. For example, a doctor may be self-sufficient when it comes to treating patients, but they would be operationally controlled if the host organisation instructs them on working hours, what facility they should work from and what patients they should be treating.

A supply of staff can look similar to labour intensive services. However, these may fall into one of the available VAT exemptions on the basis the contractor (/supplier) maintains direction and control of the individual workers. Such service contracts are not for supplies of staff and are not specifically addressed here.

What is the general VAT position?

In general, any supply of staff for a consideration is subject to UK standard rated VAT where the place of supply is the UK.

However, some exemptions and concessions exist which can be used to relieve the VAT burden. These are especially important when staff are supplied to organisations which cannot reclaim all of their VAT costs.

Which sectors are commonly impacted?

Staff supplied to the health and care sectors, education, social housing, charities and non-profits, financial firms and many public bodies are commonly affected.

What’s the difference between exemptions, VAT concessions and outside the scope?

In the sphere of VAT, exemptions have a mandatory legal footing. No VAT can be charged if an exemption applies. VAT costs incurred making an exempt supply are usually irrecoverable.

Concessions occur when HMRC allows a diversion from the normal legal position. They are either formal or informal but must be evidenced as forming part of their public policy. Therefore, an individual HMRC letter addressed to a business cannot constitute a concession for another business to rely on.

It is very important to note that both exemptions and concessions must be read and applied narrowly. For example, a trader cannot take the ‘spirit’ of a concession and apply it to a slightly different scenario.

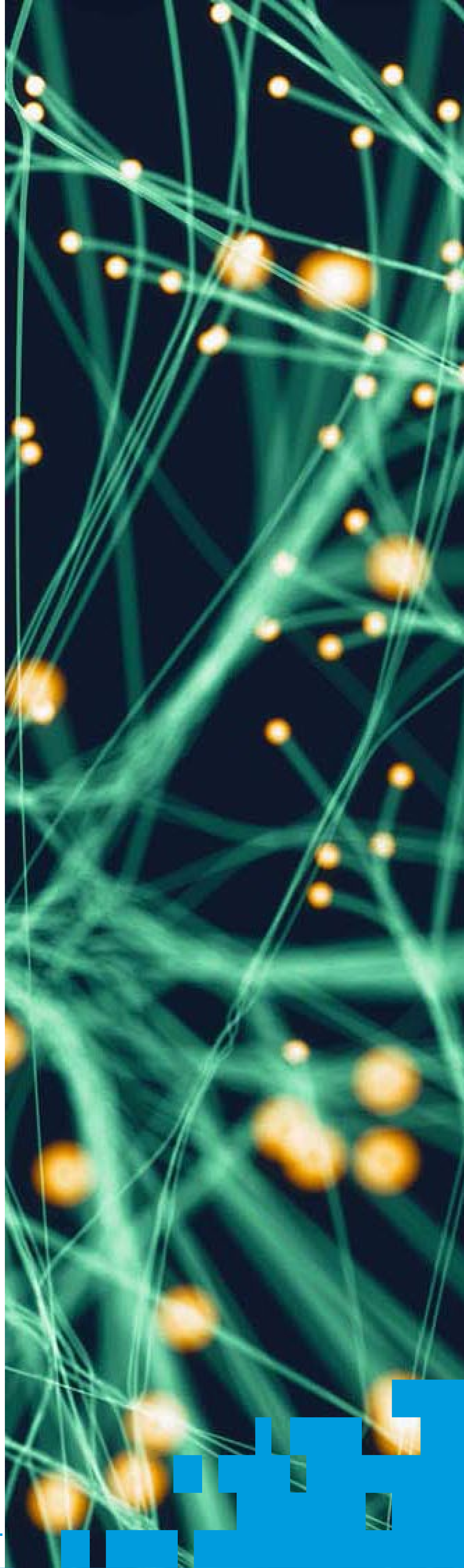
Supplies that are outside the scope of VAT result in no VAT being chargeable on the sale and figures excluded from the VAT return.

How do I apply a concession?

Subject to the terms of a specific concession, recent case law (Delta and 1st Alternative Medical) indicates a trader should make a positive election. This might include recording formal minutes or agreeing the adopted status with HMRC.

Historically, HMRC has generally accepted that if the terms of the concession are met, and VAT was not charged, then the concession was applied. This was arguably irrespective of whether the concession was, or was not, purposefully considered.

It is also very important to note that concessions cannot normally be applied retrospectively. For example, it is not uncommon for a customer to highlight to a supplier the existence of a concession and ask for VAT to be credited after the supply has occurred and has been invoiced. In this situation it is unlikely that the concession can be used as it was not applied at the correct time.



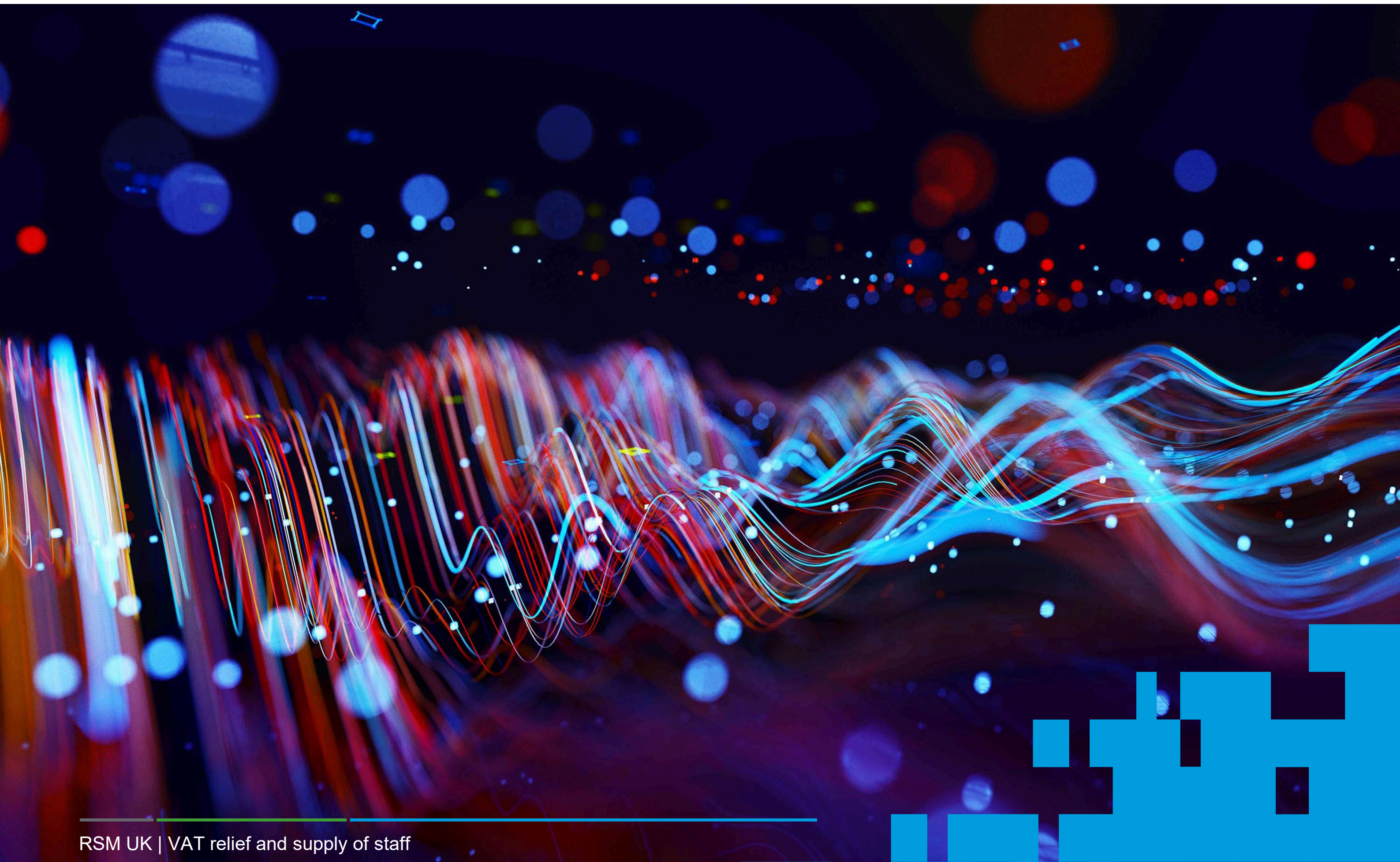
Summary of staffing concessions and reliefs

Line #	Source	Scope	Comments and general application
1	Item 5, Group 7, Schedule 9 VATA'94	Locum doctors	Subject to developing HMRC policy, staffing supplies of locum doctors (and potentially physician associates and anaesthesia associates) are mandatorily VAT exempt.
2	VN700/34 para 3.1	Suspension of employment	Relief only applies when an employed individual disengages and takes on a new engagement with another employer. The original employer may retain responsibility for the individual's payroll (see line #3) and disburse the salary costs to the new employer.
3	VN700/34 para 3.2	Joint employment	Entails one employer acting as a paymaster for a second employer where the individual is legally employed by both employers.
4	VN700/34 para 3.3	Disbursed payroll	Processing payroll for a third party's employees is a disbursement and outside the scope of VAT. Any fees charged for the services of processing the payroll is subject to VAT.
5	VN700/34 para 3.4	Office holders	This covers the scenario when an employee takes a formal office holder position with a third party, unconnected to your business.
6	VN700/34 para 4.2	Common directors	Similar to line #3, a company director may be entitled to payment from their companies with just one company nominated to operate the payroll. The disbursed payments are outside the scope of VAT as there's no supply between the companies.
7	VN700/34 para 4.3	Non-practicing directors	No supply for VAT occurs when a director is appointed by a related business under the terms of a legal agreement or contractual right; but does not give any expert advice or take an active role.
8	VN700/34 para 4.4	Personal appointments	Similar to line #5, when an individual arranges their own separate engagement with another employer, unrelated to your business, any disbursed payroll is outside the scope of VAT.

Line #	Source	Scope	Comments and general application
9	VN700/34 para 6.1/2	The secondment of staff 'Statement of Practice'	An employer can second staff without needing to charge VAT to the other host business so long as the host controls the individual, pays the individual direct and discharges the employer's tax and pension obligations. No financial gain (profit) can be made from the arrangement, nor can the concession be used by employment businesses.
10	VN700/34 para 7	Placement of disabled workers under the Sheltered Placement Scheme	VAT is disregarded where sponsors of disabled workers place a worker with a host under the Sheltered Placement Scheme (or similar) so long as the host pays the individual direct and discharges the employer's tax and pension obligations.
11	VN700/34 para 2	Supplies between government departments with specialist knowledge	A rare circumstance but often challenged by HMRC. Where one government department seconds staff to another, the supply is outside of the scope of VAT where that individual can only be sourced via the civil service due to the current government knowledge they hold. This relief does not apply to local government or other public bodies.
12	VN700/34 para 2	Supplies between national health bodies	This relief applies when staff are seconded between statutory NHS bodies in Scotland, England and Wales. It does not apply to General Practice or other providers of NHS funded services.
13	VN700/34 para 2	Supplies between and by local authorities	Supplies of staff made pursuant to a Special Legal Regime are taken out of the scope of VAT. Furthermore, the supply of services not made under a statutory obligation, and not in competition with the private sector, should be treated as non-business but may be taxed if both parties agree.
14	VN701/57 para 6.6	The Nursing Agency Concession	Applicable for use by employment businesses only. It covers: ▪ Nursing staff ▪ Directly supervised nursing auxiliaries ▪ Nursing auxiliaries supplied directly to health institutions (see VN701/31). Excludes: personal care assistants or those not providing medical care. NB The concession cannot be used by umbrella companies where they are not an employment business.

Line #	Source	Scope	Comments and general application
15	VN701/01 Para 5.7	Supplies between charities	Supplies of staff between charities and not-for-profits can be treated as outside the scope of VAT where the individual: ▪ Supports non-business activities for the employer and the host ▪ The recharge is at or below cost
16	VTAXPER64200	Catering contractors	Catering contractors can treat staff recharges as outside the scope where: ▪ There is an agency contract ▪ The catering staff serve a singular client ▪ The wages are clearly identified
17	VTAXPER64200	Clients of catering contractors	Staff supplied by the client to a catering contractor, provided for no identifiable charge, or in return for a reduced contract fee, can be treated as if no supply has occurred.
18	VATGPB8860	Fire Services College	Fire authorities providing staff to the Fire Services College are taken out of the scope of VAT on the basis it is akin to a Special Legal Regime.
19	VATGPB8860	Supplies between police authorities	Recharges of police officers, subject to a special legal regime, are taken out of the scope of VAT. HMRC agree there is no distortion of competition.
20	VATGPB8860	Agreements to release staff by local authorities	Similar to line #8 where teaching staff hold discreet contracts with their local authority and an examining board, any disbursed payroll processed by the local authority to the examining board is not a supply for VAT.
21	VATHLT2510	Dental staff	As agreed with the British Dental Association, supplies of staff between dentists, together with the use of dental facilities, can be classified as exempt from VAT.
22	VATEDU53600	Teaching staff	The supply of active teaching staff and teaching assistants between eligible bodies (schools etc) adopts the status of the education VAT exemption. It appears to be HMRC's current policy that the host can make non-business supplies of education.
23	VATEDU53600	Student catering/accommodation staff	As per 22 catering/accommodation staff between eligible bodies (schools etc) adopts the status of the education VAT exemption so long as the host is charging for their education.

Line #	Source	Scope	Comments and general application
24	VATGPB6640	[Staff supplied under pooled funds]()	The recharge of staff between the NHS and local government is not treated as a supply for VAT where made under an agreement subject to NHS Act 2006 s75 (2a) ie a formal pooled fund arrangement.
25	CSE3000	[Cost sharing exemption]()	A formalised cost sharing group can make supplies of staff to its members exempt from VAT so long as the cost sharing exemption conditions are met.
26	VN700/2	[VAT grouping]()	Supplies of staff between VAT group members are disregarded for VAT purposes.
27	MoU (not published by HMRC)	Joint staff of universities and NHS organisations	Staff engaged in both teaching and/or research as well as the delivery of patient care, who hold honorary contracts with their host, can be treated as if they were jointly employed. Payroll recharges are treated as outside the scope of VAT.
28	VTAXPER67050	[Staff hire concession]()	Withdrawn with effect from 1 April 2009. The concession previously permitted employment businesses to account for VAT on their margin/ commission element only.



Case law

There have been numerous tax tribunals regarding the supplies of staff. The majority has found in favour of HMRC and the legal VAT position is commonly regarded as settled and beyond dispute. Pertinent cases include:

Case	Released	Summary
Isle of Wight NHS Trust	2025	Supplies of locum doctors are VAT exempt (not as a medical service). HMRC policy has now been substantially confirmed.
1st Alternative Medical Staffing Ltd and another	2025	The taxpayer was not a relevant institution for the purposes of staff being closely related to hospital care.
1st Alternative Medical Staffing Ltd and another	2022	Staffing VAT concessions cannot be applied retroactively. A positive election should be made.
Mainpay Ltd	2022	Economic reality can override contract wording - supplies of staff contracted as medical service.
San Domenico Vetraria	2020	Common director recharges can be subject to VAT. HMRC has not updated its own policy to date.
Medacy	2019	A balanced decision, but the evidence supported an insured medical services contract and not a supply of staff.
Impact Contracting Solutions	2019	HMRC attacked the buying party in a supply chain where there was suspected knowledge of VAT fraud down the chain. Subject to any further litigation.
Adecco	2018	The courts categorially confirmed VAT is due on staff when supplied as a principal - even if contracts refer to agency relationships.

Case	Released	Summary
ELS Group Ltd	2015	Use of staff hire concession cannot be applied retrospectively.
Olive Garden Catering Company Ltd	2015	Catering labour-only concession must solely act for the client.
Reed Employment Ltd	2013	The case covered the VAT treatment on nurses (only) up to 1995 ie supplies predating the Conduct Regs. The case did not change HMRC’s extant policy.
Rapid Sequence	2013	Provision of medical locums was not a supply of medical services (now see Isle of Wight NHS Trust case above).
Sally Moher	2012	Provision of the services of health professionals does not amount to provision of medical care for VAT purposes.
Horizon College	2007	Supplies of teaching staff can be closely related to education.

Summary

There is an array of reliefs and concessions that providers of staff can use. The two most commonly used are HMRC's Statement of Practice (8) and the Nursing Agency Concession (13).

All the reliefs have strict conditions that must be complied with before they can be adopted. If the conditions of a concession or relief cannot be complied with, it is more likely than not that your supply will be subject to VAT.

Surprisingly, we still see some employment businesses only accounting for VAT on their commission. The Staff Hire Concession was withdrawn in 2009 and cannot be relied upon; especially where an employment bureau is providing their services as a principal.

The above list of cases only covers supplies of staff. It does not cover labour intensive service contracts nor other arrangements that may involve the placing of staff. For example, it may be feasible to act as an introducing agent and/or arrange for the host to directly engage the staff. Employment businesses should also be mindful of the Conduct of Employment Agencies and Employment Businesses Regulations 2003 ('the Conduct Regs') which can mandate how employment businesses should contract with their customers.

This guide is for general application and provides a high-level summary only. Further reference should be made to the relevant HMRC notice and/or advice sought from your professional adviser before applying any concession or VAT treatment.

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Contact: Scott Harwood

e. scott.harwood@rsmuk.com

t. +44 20 3201 8465

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