

**EXPLANATORY MEMORANDUM TO**  
**THE VALUE ADDED TAX (DRUGS AND MEDICINES) ORDER 2023**  
**2023 No. 1006**

**1. Introduction**

- 1.1 This explanatory memorandum has been prepared by His Majesty’s Revenue and Customs (HMRC) on behalf of His Majesty’s Treasury and is laid before the House of Commons by Command of His Majesty.

**2. Purpose of the instrument**

- 2.1 This instrument amends the scope of the Value Added Tax (VAT) zero rate for drugs, medicines, aids for the disabled etc. The purpose is to include the supply of drugs and medicines to an individual for personal use in accordance with a patient group direction issued under the Human Medicines Regulations 2012 within the scope of the zero rate, temporarily. The effect of this instrument will temporarily bring the VAT rate for drugs and medicines supplied under patient group directions in line with drugs and medicines dispensed on a prescription of a registered health professional. The zero rate will apply from 9 October 2023 until 31 March 2027.

**3. Matters of special interest to Parliament**

*Matters of special interest to the Select Committee on Statutory Instruments*

- 3.1 None.

**4. Extent and Territorial Application**

- 4.1 The territorial extent of this instrument (that is the jurisdiction(s) which the instrument forms part of the law of) is the United Kingdom.
- 4.2 The application of this instrument (that is where the instrument produces a practical effect) is the United Kingdom.

**5. European Convention on Human Rights**

- 5.1 The Financial Secretary to the Treasury, Victoria Atkins MP, has made the following statement regarding Human Rights:

“In my view the provisions of the Value Added Tax (Drugs and Medicines) Order 2023 are compatible with the Convention rights.”

**6. Legislative Context**

- 6.1 At Spring Budget 2023, the Government announced that it would extend the zero rate for VAT to supplies of drugs and medicines made under patient group directions. This instrument temporarily inserts new Item 1A by way of non-textual modification into Group 12 of Schedule 8 to the Value Added Tax Act 1994 to introduce a temporary VAT zero rate to drugs and medicines supplied under a patient group direction, which would otherwise be subject to the standard rate of VAT. This instrument also modifies the Notes so that Notes 1, 2A, 2C, 2D and 5A of that Group are read as if they apply to Item 1A as they do to Item 1, and as if a new Note 2E has been inserted to define

the meaning of a “patient group direction”. The modifications apply in relation to supplies made on or after 9 October 2023 until 31 March 2027 so that VAT on these supplies will automatically revert to the standard rate from 1 April 2027, unless the Government introduces further legislation on this.

## **7. Policy background**

### *What is being done and why?*

- 7.1 The current VAT legislation provides for VAT to be charged at the zero rate for supplies of drugs and medicines dispensed to an individual for personal use on a prescription of a registered health professional. However, the scope of that zero rate does not include drugs and medicines supplied under a patient group direction. This instrument will temporarily bring the VAT treatment of medicines supplied under patient group directions in line with medicines dispensed under a prescription.
- 7.2 This instrument will help to reduce costs for the National Health Service (NHS), ensure the tax system keeps pace with changes to healthcare delivery, and is in line with the Government’s commitment to ease pressure on GP services. The temporary nature of the zero rate will allow its impact to be reviewed.

## **8. European Union Withdrawal and Future Relationship**

- 8.1 This instrument does not relate to withdrawal from the European Union or trigger the statement requirements under the European Union (Withdrawal) Act 2018.

## **9. Consolidation**

- 9.1 This instrument does not consolidate any other instruments.

## **10. Consultation outcome**

- 10.1 At Spring Budget 2023, the Government announced that it would extend the zero rate to drugs and medicines prescribed on prescriptions to drugs and medicines supplied under patient group directions, which will help reduce costs for the NHS, ensure the tax system keeps pace with changes to healthcare delivery, and is in line with the Government’s commitment to ease pressure on GP services. The instrument is wholly relieving in nature and businesses and representative bodies from the sector are supportive.

## **11. Guidance**

- 11.1 The changes made by this instrument will be reflected in the publication of a Revenue and Customs Brief and an update to HMRC VAT health guidance.

## **12. Impact**

- 12.1 There is no, or no significant, impact on business, charities, or voluntary bodies.
- 12.2 The measure is expected to have a positive effect on community pharmacies who can supply medicines to individuals under a patient group direction, which will help reduce costs for the NHS, ensure the tax system keeps pace with changes to healthcare delivery, and is in line with the Government’s commitment to ease pressure on GP services.

12.3 A Tax Information and Impact Note covering this instrument will be published on the website at: <https://www.gov.uk/government/collections/tax-information-and-impact-notes-tiins>.

### **13. Regulating small business**

13.1 The legislation applies to activities that are undertaken by small businesses.

13.2 No specific action is proposed to minimise regulatory burdens on small businesses.

13.3 The basis for the final decision on what action to take to assist small businesses is that no action is needed due to there being no additional regulatory burdens created by this instrument.

### **14. Monitoring & review**

14.1 The approach to monitoring of this legislation will be kept under review through communication with external stakeholders and businesses.

14.2 The instrument does not include a statutory review clause as it is exempt under section 28(3)(a) of the Small Business, Enterprise and Employment Act 2015 because it relates to tax and the power under which this instrument is made is being exercised to make or amend provisions imposing, abolishing, or varying tax or provisions in connection with such provision.

### **15. Contact**

15.1 Joyce Schultz at HMRC, email: [joyce.henningham@hmrc.gov.uk](mailto:joyce.henningham@hmrc.gov.uk), can be contacted with any queries regarding the instrument.

15.2 Ian Broadhurst, Deputy Director for Indirect Tax at HMRC, can confirm that this Explanatory Memorandum meets the required standard.

15.3 Victoria Atkins, Financial Secretary to the Treasury, can confirm that this Explanatory Memorandum meets the required standard.