

## **VAT FOR PSCs**

### Registration – compulsory or voluntary

If the company turnover (i.e. gross income) is less than £73,000 (2011-12 figures) then registration is optional, over £73,000 it is compulsory. Once registered you add VAT at 20% onto the invoices you send your client/agency, and claim VAT back on allowable expenses. The difference is paid to HMRC at the end of the quarter.

The registration thresholds work on a rolling 12 months basis, not necessarily a quarter, financial year or tax year. Unregistered businesses need to look at their turnover at the end of each month, and if for the last 12 months (or from date of starting to trade if less than 12 months) it is more than £73,000 the registration must be effected from the second successive month.

EG:

Turnover 12 months 1 February to 31 January	£55,000
Turnover 12 months 1 March to 28 February	£58,000
Turnover 12 months 1 April to 31 March	£69,000
Turnover 12 months 1 May to 30 April	£74,000

The registration threshold has been breached at 30 April. Registration must be effected from 1 June. From 1 June VAT must be charged on all invoices raised.

From 1 April 2012 all new VAT registration applications must be made online. The paper form VAT1 is to be abolished from that date.

### Basic Vat Accounting or Flat Rate Scheme

There are two main ways to deal with your vat.

First there is the traditional basic vat accounting method. Under this method vat is accounted for at 20% on all sales invoices, and claimed back on all relevant expenses.

EG: Supposing your weekly invoice is £1,000 to your agency. You are registered for VAT so you invoice them £1,000 net + £200 VAT = £1,200.

If your invoice is the same each week of the quarter then you will have collected VAT of £2,600 (i.e. £200 x 13) and this is due to be paid to HMRC no later than 30 days after the quarter end, via an online VAT return.

When paying HMRC you can deduct VAT incurred on expenses. EG if your expenses were £2,400 including VAT (equates to £2,000 plus £400 VAT) then you deduct the £400 and pay HMRC £2,200 (£2,600 less £400).

In terms of Corporation Tax, the company's taxable income for the quarter is £13,000 and its expenses £2,000 - i.e. excluding the VAT element.

## **VAT FOR PSCs - continued**

The alternative is the flat rate scheme. If your vat exclusive turnover is less than £150,000 then you can use this scheme. Vat is still charged at 20% on invoices, but you pay a lower percentage of the sales income to HMRC and claim no vat back on expenses.

The main flat rate percentages which may apply to PSCs are:

Any other activity not listed elsewhere	12.00%
Business services not listed elsewhere	12.00%
Computer repair services	10.50%
Financial services	13.50%
Management consultancy	14.00%
Computer and IT consultancy or data processing	14.50%
Engineering and engineering design services	14.50%

Businesses are entitled to a 1% reduction in these rates for their first year of operation.

These amounts apply to gross income. The normal 20% is applied to net income. On a like for like basis 20% on net income equates to 16.67%

You must leave the scheme if your vat exclusive income exceeds £225,000.

If you are unsure what rate applies to your business it is suggested that you contact HMRC National Advice Service on 0845 010 9000.

Further information, including a full list of trade sectors and rates, is in Notice 733 available from HMRC [www](http://www.hmrc.gov.uk) site.

EG: Supposing your weekly invoice is £1,000 to your agency. You are registered for VAT so you invoice them £1,000 net + £200 VAT = £1,200.

Your flat rate percentage is 14%

If your invoice is the same each week of the quarter then you will have collected VAT of £2,600 (i.e. £200 x 13). Your gross income during the quarter is £15,600.

At the end of the quarter you pay HMRC  $£15,600 \times 12\% = £1,872.00$ , with no deduction for expenses (unless you have capital expenditure over £2,000 including vat, in which case the vat on these items can be deducted in addition)

In terms of Corporation Tax, the company's taxable income for the quarter is £13,728, i.e. gross income less vat. Expenses are claimed in the accounts on a gross basis as normal.

## ***VAT FOR PSCs - continued***

### Return cycles, payment and penalties

VAT is due on a quarterly basis, payable 30 days after the quarter end for a paper return, and 40 days if filed online and paid by direct debit. We normally arrange for the quarter end to tie in with the PAYE quarters. There is an onerous penalty regime for late VAT returns and payments, so we advise clients to stay on top of VAT matters at all times.

### Online filing requirements

With effect from 1 April 2010, businesses with a turnover in excess of £100,000 per annum, and newly registered businesses, are required to file their VAT returns online, and from April 2012 this is extended to all businesses. If you have not already registered for this service, you should do so at [www.hmrc.gov.uk](http://www.hmrc.gov.uk) Online filing is something we recommend in any event, as it is simple and reliable. Additionally if filing online HMRC allow an additional 7 days in which to file VAT returns, and an additional 10 days for payment if a direct debit is set up.

### VAT interaction with other EC states

With effect from 1 April 2010 businesses that sell their services to customers in other EC states are required to file a EC Sales list. If you believe your business falls into this category, and you need guidance on this, please request our guidance notes covering this.

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