

VAT FOR PSCs

Registration – compulsory or voluntary

If the company turnover (i.e. gross income) is less than £70,000 (2010/11 figures) then registration is optional, over £70,000 it is compulsory. Once registered you add VAT at 17½% 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 £68,000 the registration must be effected from the second successive month.

EG:

Turnover 1 February x0 to 31 January x1	£50,000
Turnover 1 March x0 to 28 February x1	£54,000
Turnover 1 April x0 to 31 March x1	£52,000
Turnover 1 May x0 to 30 April x1	£68,000

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.

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 17½% 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 + £175 VAT = £1,175.

If your invoice is the same each week of the quarter then you will have collected VAT of £2,275 (i.e. £175 x 13) and this is due to be paid to HMRC no later than 30 days after the quarter end, on a VAT100 return.

When paying HMRC you can deduct VAT incurred on expenses. EG if your expenses were £2,000 including VAT (equates to £1,702 plus £298 VAT) then you deduct the £298 and pay HMRC £1,977 (£2,275 less £298).

In terms of Corporation Tax, the company's taxable income for the quarter is £13,000 and its expenses £1,702 - i.e. excluding the VAT element.

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 17½% on invoices, but you pay a lower percentage of the sales income to HMRC and claim no vat back on expenses.

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

Any other activity not listed elsewhere	10.50%
Business services not listed elsewhere	10.50%
Computer repair services	9.50%
Financial services	12.00%
Management consultancy	12.50%
Computer and IT consultancy or data processing	13.00%
Engineering and engineering design services	13.00%

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

These amounts apply to gross income. The normal 17½% is applied to net income. On a like for like basis 17½% on net income equates to 14.89%

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 site.

EG: Supposing your weekly invoice is £1,000 to your agency. You are registered for VAT so you invoice them £1,000 net + £175 VAT = £1,175.

Your flat rate percentage is 11%

If your invoice is the same each week of the quarter then you will have collected VAT of £2,275 (i.e. £175 x 13). Your gross income during the quarter is £15,275.

At the end of the quarter you pay HMRC £15,275 x 11% = £1,680.25, 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 £13,595, i.e. gross income less vat. Expenses are claimed in the accounts on a gross basis as normal.

Return cycles, payment and penalties

VAT is due on a quarterly basis, payable 30 days after the quarter end. We normally arrange for the quarter end to tie in with the PAYE quarters. There is an onerous penalty regime for late VAT payments, although in many cases PSC will fall under de-minimus levels for the lower end penalties.

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Online filing requirements

With effect from 1 April 2010, businesses with a turnover in excess of £100,000 per annum are required to file their VAT returns online.. If you have not already registered for this service, you should do so at 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.

VAT interaction with other EC states

With effect from 1 April 2010 businesses who 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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