

Contractor guide to charging VAT to overseas, non-UK clients

Contractors who run their contracting business via a [VAT-registered](#) contractor limited company will find that, following [rules introduced by HMRC on 1st January 2010](#), they do not have to charge VAT to their business customers based outside of the UK, even if the work is completed in the UK.

"Rules that came into force at the beginning of 2010 changed the VAT landscape considerably for some UK businesses with overseas customers," explains [Steve Crouch](#) of online contractor accountant [Crunch](#). "But because the vast majority of contractors will be supplying a business service direct to clients on a business-to-business basis, they will not have to add VAT to their invoices to non-UK clients."

However, Crouch warns that there are certain types of services where VAT must be charged to clients based outside of the UK and, even when VAT is not charged, contractors supplying services to clients in EC member states must now report these transactions to HMRC.

The General Rule

"The biggest change to the rules was the creation of a new 'General Rule' affecting the type of services supplied and how the place of supply is determined," continues Crouch. "The place of supply and the nature of the service will determine whether the client should be charged VAT."

It is useful to know that for the purposes of VAT, the UK includes the British Isles, Northern Ireland, the 12 nautical mile territorial limit surrounding the coast, and the Isle of Man, but not the Channel Islands, which are outside of both the UK and EC.

According to Crouch, the general rule for business-to-business customers is that the place of supply is where the customer is based, so if the contractor's client is based, for example, in the USA, the service is considered as having been supplied in the USA and therefore no VAT should be charged to the American customer.

Consumer sales attract VAT - and 'consumers' includes EC public sector clients

"Companies that provide services to consumers may be liable for VAT," says Crouch, "So, for example, if an IT contractor who sells software as a sideline to their main contracting income sells a software product to individuals based in an EC member state, then they will have to charge that customer VAT."

Crouch highlights that under HMRC rules, a 'consumer' is not only a private individual, but also a charity, government department or other organisation that has no business activities, so contractors with clients in the public sector in EC member states must add VAT to their invoices.

"Any supplies of products and services to EC member states must be reported to HMRC in an EC member state return," he says. "This requires contractors to include their EC client's VAT number. Failure to comply could result in the contractor being fined."

Special place of supply rules

As Crouch explains, there are exceptions to the General Rule. For instance, those services included in HMRC's special place of supply rules list are treated differently. Because there are so many exemptions from the General Rule, Crouch adds that it is very important that contractors specify exactly the nature of the service being supplied so there is no chance of ambiguity and unexpected VAT demands and fines.

"For example, contractors in the marketing sector who are offering events management services may be working on behalf of a non-UK client," says Crouch, "but because their service is subject to the special place of supply rules, the contractor may have to charge the client VAT as business to business and business to consumer services in this situation are determined by where the services are physically performed.

"Although," he adds, "all contractors need to stay abreast of changes as this particular exemption is for the year ended 31 December 2010 and from 1 January 2011 the rules follow the General Rules."

Contractors with a contract to work for a non-UK client but who work via a UK-based agency can simply charge the agency VAT at the standard rate, and the agency handles the VAT implications regarding the non-UK client.

To ensure that contractors are charging and accounting for VAT correctly and within the rules and keeping abreast of changes, Crouch recommends that they seek professional assistance from their accountant before they take on a new client outside the UK.

“ Any supplies of products and services to EC member states must be reported to HMRC in an EC member state return ”

Steve Crouch, Crunch

Published: Thursday, July 08, 2010

[Tweet](#)

© 2011 All rights reserved. Reproduction in whole or in part without permission is prohibited. Please see our [copyright notice](#). If you want to use any content you have seen on this site then please [request our media pack](#) and ask for details of our Content Licencing Service.

Readers Comments...



Be the first to comment on this article

Also of interest...

Related Guides:

- [Contractors' guide to VAT](#)
- [What is a PAYE umbrella company?](#)
- [Choosing an accountant for your limited company](#)
- [Contractors' guide to the flat rate VAT scheme](#)

Related Calculators:

- [VAT Calculator](#)
- [Permanent To Contracting Calculator](#)

Related Internet Links:

- [Crunch](#)



ABCe verified website - last audit confirmed **130,682 monthly unique visitors**

© Copyright 2011 Byte-Vision Limited UK. All rights reserved [Copyright notice](#)