

Sub contracting work: tax and accounting issues

Introduction

Sometimes you may need to engage the services of another sub contractor. This might be due to workload, or perhaps when using a right of substitution clause if you have a contract for services.

Sub contractors usually provide their services through a limited company, or as self employed individuals.

This article examines the tax and accounting issues you will need to consider.

Self Employed Status

If the sub contractor is "self employed" you should confirm their status in writing.

An example letter from them would be:

I confirm that I am a self employed individual trading as XXXXX Computer Services of 1 Any Road, Any Town. My self employed number is XXX/XXXXX and the Inspector of Taxes dealing with my affairs is XXXXX.

Signed

J Bloggs

You should also consider if the relationship with your company could be construed as "employment" by an Inspector of Taxes. In such circumstances, HMRC can seek payment of the PAYE and National Insurance together with interest and penalties from you. Beware!

This could happen if, for example, you are making regular payments to them for regular work carried out. The fact that they are "self employed" does not mean that they cannot have a separate employment with you. If in doubt, you should take professional advice (usually your accountant) to discuss the specific working arrangements you have with the "self employed" sub contractor.

In all cases, you should insist that a self employed sub contractor provides you with proper invoices. If they are also VAT registered you should ask for a copy of the VAT certificate and insure that all invoices include the same VAT number on the certificate provided.

Limited Company Contractors

Where your sub contractor is a limited company, the position is much clearer – nobody can argue that a limited company is "employed" or "self employed".

It is easy to check the actual existence of the limited company by going to the Companies House website. You can also ask for a copy of their Certificate of Incorporation.

You should also ensure that all payments are made to a bank account bearing the company name.

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