

Contractors publishing their own books – tax and accounting issues

Limited company contractors self-publishing books to promote their contracting services should pay for the project personally and not through their company, unless the book's profits are expected to be in excess of £10,000 per year.

"Most contractors will experience difficulties with the **VAT flat rate scheme** and be required to create a second profit and loss account for the project, costing them extra accountancy fees and incurring VAT charges," explains **James Abbott**, owner and head of tax at contractor accountant **Abbott Moore**.

"It is only when profits on book sales are expected to reach approximately £10,000 or more that it becomes cost effective for a contractor to publish a promotional book via their company. So contractors are typically better off publishing the book as a personal project."

Hardcopy books are zero rated, not out of scope, for VAT

In Abbott's experience, most limited company contractors are registered under the VAT flat rate scheme. This should normally provide contractors with between £1,500 and £3,000 a year of additional 'income', because the majority pay less VAT to HMRC under the scheme than they collect.

"Hard copy books are zero rated for VAT, and not out of scope," continues Abbott. "The VAT rate is calculated using the dominant source of income. So, if a contractor earns £100,000 from consulting activity and only £5,000 from publishing, then all the income – book sales plus contracting – attract VAT. That means that the average contractor must declare 13-14% VAT (depending on their business sector) on book sales and pay this over to HMRC."

In Abbott's experience, although the contractor can reclaim VAT and corporation tax relief on the costs of producing and marketing the book, the net result leaves most contractors out of pocket.

Book publishing represents another trade

Another added complication is that for most contractors publishing a book represents 'another trade', in addition to their mainstream contracting activities. And each trade within the limited company must have a separate profit and loss (P&L) calculation.

"Creating the second P&L will incur additional charges by the contractor's accountant, which would eat into any profits arising from book sales," highlights Abbott. "Plus the corporation tax computation becomes more complex."

The alternative is for the contractor to pay out personally for the costs of publishing and promoting the book, and then record the income and costs in the 'miscellaneous' section of their personal **self-assessment tax return**. The contractor can still record the expenses of publishing the book and gain tax relief on their income tax.

Authors, alongside other trades with highly variable incomes, such as farming, also benefit from 'averaging'. This means that a contractor author with high book sales one year and low sales the next can average out their income over three years for tax purposes.

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James Abbott, Abbott Moore

The benefits of publishing via the company

If the book is expected to make significant profits, in excess of approximately £10,000 a year, or if it is expected to make significant losses, then it is worth putting through the company.

The project also looks more financially viable if the contractor is not part of the flat rate scheme, and will not incur additional VAT on the book sales on which they are not charging VAT.

"Contractors can either transfer ownership of the book into the company, or grant a licence to their limited company and pay themselves a royalty, with termination clause in the event that the company ceases trading or is sold," notes Abbott.



James Abbott

Owner

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James Abbott is the owner of Abbott Moore LLP and often speaks on freelancer / contractor tax matters. He has his own growing portfolio of contractor clients.

Abbott Moore LLP are PCG Accredited Accountants and specialise in providing tax advice to freelancers as well as dealing with their year end accounts and tax returns. [Read Full Profile...](#)

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Abbott concludes: "The default position for most contractors is to self-publish personally and not via their limited company. Only when the book looks like it will generate significant sales does it become cost effective to put it through the company."

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