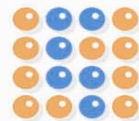


What Contractors should look for in an Accountancy Services Provider

**Accounting Services for Contractors,
Small Businesses and Start-up's**



Tel: 0870 3500 111
Web: www.london-1st.com



London 1st

What contractors should look for in an accountancy services provider?

If you are a contractor offering services through a limited company, how do you know what elements form a good accountancy service? Many contractors do not realise that they could be liable for an extra tax under [the Managed service company \(MSC\) legislation](#), which directly relates to the service delivered by an accountant or services provider. By merely making the wrong choice of accountant you could land in financial trouble and this is before you start to investigate what constitutes a good service.

With a plethora of different services out there it is difficult for contractors to make a decision on a compliant and quality services provider. We unravel the complications and give you the low down of what is good, what is bad and what to look out for.

Managed Service Company (MSC) Legislation

This legislation was introduced in April 2007 and essentially revolves around how an accountancy services provider delivers services to contractors. If they deliver a service that is deemed by the HMRC to influence or control the actions of the contractor, the provider is deemed to be caught by the MSC legislation. All contractors using the services of a caught provider will be liable to pay PAYE and NIC on income received in their company. For more information about the MSC legislation [click here](#).

Your first task will be to determine if the accountant falls within this legislation and obviously every accountant is likely to assure you that they are compliant. So how can you do your due diligence on this? Fortunately, there is an independent audit standard that has been developed by [Professional Passport](#) to determine the MSC status of contractor service providers. This relieves contractors of the burden of determining the MSC status of an accountant since and provides peace of mind that the provider does not fall into this legislation. Service Providers that have passed this audit are also more likely to deliver superior services than competitors.

Clues from your first consultation

Usually an accountant will offer your first consultation free of charge. This will provide the first clue of how good they are. Advice given should be thorough and consider your personal circumstances. Beware of tax avoidance schemes such as offshore, self-employed and employee benefit trust schemes. The table below lists the elements of a good and a bad consultation. Accountants that provide quality, honest advice in your first consultation are also likely to provide good advice on other matters in the future.

Elements of advice to Contractors seeking to contract through a limited company that indicate a good or a bad consultation.

Good Consultation	Bad Consultation
Discusses whether a limited company is the best choice of structure for your level of earnings and personal circumstances.	Encourages a limited company without examining other options according to your earnings, risk profile and personal circumstances.
Informs you about IR35 (See our IR35 centre) and determines your own awareness of IR35 and how it applies to your situation.	Does not inform you about IR35 or if they do, they offer insurance to protect you from it or advise that you are not affected by it.
Determines if you are eligible to work as a director of a limited company in the UK	Makes no check of your status in the UK and whether you are eligible to be a director.
Encourages you to check your IR35 status with an independent organisation.	Offers their own in-house IR35 status review which cannot be verified as impartial.
Discusses your best options for VAT registration highlighting differences between flat rate VAT scheme and normal VAT.	Does not discuss VAT registration or encourages flat rate VAT without examining your business circumstances.
Discusses the salary you want to pay yourself and the pros and cons of your choice.	Encourages you to pay a minimum salary without discussion.
Discusses the affects of dividend payments on your personal tax liability	Makes no mention of how dividends paid in a year may affect personal tax.
Discusses the benefits of pensions	Makes no mention of pensions

- **Essential Service Elements**

The common service elements that an accountant should provide a contractor are listed below.

- 1. Bookkeeping Facility.**

Why do you need this? This is a basic tool that is vital for basic record keeping. You need to invoice your client/agency and be able to monitor what has and has not been paid. This should at least include an invoicing facility and an expense recording facility.

What can I expect? Invoicing facilities should allow you to easily record your activity and hours and enable you to print or email the invoice to your customer/agency. An expense recording facility should enable you to categorise your expenses and record whether you have paid for it personally or from the business account. Such facilities can range from basic spreadsheets that you email to your accountant, to more advanced online systems that provide the traditional features of most accountancy software such as profit and loss reporting, drill downs, reconciliations and invoice age analysis.

Some accountants will use sophisticated web-based software which is the best way to communicate to and fro between accountant and client and can make a large difference to the service levels that you experience. The sophistication of the bookkeeping facility that your accountant provides for you can indicate how far evolved they are in providing a quality, well-considered service.

2. Regular Bank Reconciliations.

Why do you need this? This service element is rarely highlighted by accountants, yet it is the most important ongoing activity that checks the integrity of your accounts and keeps you in touch with your real company position. The reconciliation checks that the cash at bank reflects what is recorded in your accounts, such as what is available for dividends or what is set aside for future liabilities such as VAT or corporation tax. Regular reconciliations are important for analysing cash flow and monitoring that invoice payments and expense payments such as VAT are timed such that you do not run out of cash. Regular reconciliation also ensures that mistakes have not occurred. For example, duplication of invoices or expenses can give completely incorrect information about your profitability and lead to incorrect, dividends, incorrect VAT returns and corporation tax calculations. Without regular reconciliations your accounts could be inaccurate making strategic decisions difficult and could lead to cash flow problems, e.g. not leaving enough money in your account to pay VAT.

What can I expect? Many accountants will offer quarterly reconciliations or even annual reconciliations. If you are pushing your cash flow to the limit, make sure your accountant reconciles your bank account monthly, weekly or even daily. Alternatively make sure they provide you with a facility to do the reconciliation yourself. Failure to reconcile regularly could mean that you get a shock when you find you do not have enough cash in your account to pay liabilities and need to pay money back to your company.

3. VAT Returns

Why do you need this? Depending on your circumstances it can benefit the company financially to be VAT registered. If you are VAT registered you will have to do a VAT return to HMRC once every 3 months. Failure to do so can result in penalties and interest, which includes late returns.

What can I expect? Most accountants will offer VAT returns, but make sure that they are reconciling your bank account before they do a return and that they offer a “cash VAT” return (VAT return based on invoices and expense that have been paid). VAT returns that are non cash could cause cash flow problems if your client/agency is late in payment. Your accountant should complete the VAT return for you well before deadline for your perusal and advise on whether you have enough funds to pay for the return. Due to MSC legislation it is not advisable to expect your accountant to make payment.

4. PAYE Returns

Why do you need this? Most directors will pay themselves a salary from their company whereby Tax and NI is owed to the HMRC either monthly or quarterly.

What can I expect? Your accountant should calculate this for you and help to fill

in the return before the deadline. Once again make sure a reconciliation has been done to verify the return is correct. Due to MSC legislation it is not advisable to expect your accountant to make payment.

5. Annual Returns

Why do you need this? Once a year your company must make a return to Companies House on specific company information before a certain deadline.

Failure to meet the deadline can result in financial penalties.

What can I expect? Most accountants will do this for you as part of their service. Companies House charge £15 fee for the return and it can be done online to save the hassle of dealing with paper.

6. Annual Statutory Accounts and CT61 Return

Why do you need this? It is a statutory requirement to provide company annual financial statements in a certain format to HMRC and Companies House. HMRC accounts must also be accompanied with a corporation tax return (CT61) which is an assessment of the corporation tax payable. Late returns and payment can result in penalties and interest.

What can I expect? Most accountants bundle this as part of their service but be vigilant for accountants that charge you annual service fees that do not include annual accounts and they then charge you a lump sum before preparing accounts at year end. Accounts should be prepared and presented to you for signing well before the deadline. Corporation tax must also be calculated for you to make payment before the deadline. Due to MSC legislation it is not advisable to expect your accountant to make payment.

7. Calculation of Liabilities and Regular Reporting

Why do you need this? One of the most important service elements is how your accountant updates your accounts, calculating the company liabilities outlined above and providing you with a report on the company position so that you can analyse your company position, make decisions and determine dividends.

What can I expect? A typical service will rely on the information you provide and then make calculations and then provide you with company reports. Make sure the information you receive is verified by company bank reconciliation as outlined above. Quality reporting will inform you of your company bank balance, what funds should be set aside for liabilities (tax) and what profits are available for dividend declarations. A good accountant will discuss a sound dividend or remuneration strategy with you and help you plan and monitor a personal tax strategy. The least you can ask for is an up to date Profit and loss and balance sheet that reflects your latest bank account balance.

8. Personal Tax Return Preparation

Why do you need this? As a director of a limited company you are obliged by law to submit a personal tax return for each financial year. This is not part of your company tax but constitutes tax on the income that you receive personally.

What can I expect? This service can be offered as part of your company services packages or may be charged for separately. Make sure you ask your accountant at the beginning about this. Make sure you scrutinise your personal tax return carefully that your accountant has included all your personal income correctly or you could be liable for a false return.

9. Advice Customer Service

Why do you need this? It is obvious that you will often need to talk to your accountant or seek advice on many aspects of running your business.

What can I expect? Some accountants will limit advice you can ask each month on a time basis whilst others will provide unlimited support and advice with a personal adviser who is available at any time and who is normally familiar with your company circumstances. The latter is obviously more desirable.

10. Scope and Flexibility of Services

Individuals may require different levels of support depending on personal circumstances and preferences. Some contractors want to focus only on their core business in generating invoiced income and have neither the time nor inclination to get involved in accounting or company compliance. Contractors may also evolve in their service and support needs from the time they first start contracting to becoming seasoned contractors. A good accountant should evolve with the life cycle of a contractor business and provide services that are flexible enough to mould to the contractors needs. Hence, contractors that require less support should be able to tailor the services they require to their needs so that they are able to ask for the support they require and reduce their reliance and the price of their accountant.