



Dear Sir or Madam

Accounting for VAT and Corporation Tax when using payment processing services

We're writing to businesses to remind them how to account for VAT and Corporation Tax when using payment processing services.

Businesses need to account for VAT on the full amount they charge customers. Some are only accounting for VAT on the amount they receive with payment processing services fees deducted. For Corporation Tax, they need to be able to correctly identify allowable expenses.

Our records show that your business uses payment processing services. So we'd like you to check whether you've accounted for these taxes correctly when using payments processing services, and contact us to let us know.

What you need to do for VAT

Make sure your systems and processes account for VAT on the full value of the supplies you make when you use payment processing services.

If you use different payment processing service providers, consider how they claim their fees. For example, some may deduct their fee from the amount a customer pays and pay the rest to you: others may pay the full amount to you and invoice for their fee later.

If you've made any errors in your VAT calculations, please correct them. Go to [GOV.UK](https://www.gov.uk), search 'VAT notice 700/45' and follow the process.

What you need to do for Corporation Tax

Please make sure your accounting systems and processes can distinguish payment processing services fees from the other receipts and expenses of your trade. You need to do this no matter how your payment processing service providers charge you for their services.

For detailed guidance on calculating your profits for Corporation Tax, please go to [GOV.UK](https://www.gov.uk) and search 'BIM30000 measuring profits'.

This letter is not a notice of enquiry into your Corporation Tax return.

When you've looked at how your systems deal with payment processing services

Please contact us to tell us:

- if you haven't accounted for VAT correctly in respect of using payment processing services over the last 4 years
- if you haven't calculated your profits correctly in respect of payment processing services income and charges in your most recent Corporation Tax return
- if you've made corrections for VAT or Corporation Tax in respect of using payment processing services and the supplies affected
- details of any changes you've made to your systems and processes to stop errors happening again.

We'd appreciate a response by SEES to enter date – 45 days Date A. If you need more time or have any questions, please contact us. Our details are at the top of this letter.

If you want to email us, please be aware that email is not secure. Our email address is msbmailings@hmrc.gov.uk

If you want us to reply by email, you must also tell us that you understand and accept the risks involved. For more information, please read the enclosed factsheet, 'Corresponding with HMRC by email'.

You'll need to confirm that your company has agreed to contact us using email. Please send this agreement, with your reply, to msbmailings@hmrc.gov.uk

We'll only email you about your tax affairs if you've already given us permission to do so. If you have any doubt that an email has come from HMRC, then do not click on any links, give any personal details, or reply to the email. You should send the suspicious email to us at phishing@hmrc.gov.uk

If you contact us, we can deal with you more quickly if you quote our reference number.

If you find any errors

As long as you took reasonable care with your tax returns, we won't charge penalty if you've made an error. We take all circumstances into account when deciding whether to charge a penalty.

If you do find an error after reading this letter, please tell us about it. If you don't, and we find out later, we'd treat this as careless, even if the error was neither careless nor deliberate on the original return.

If you contact us, we can deal with you more quickly if you quote our reference number and provide a daytime phone number.

Yours sincerely

MSB Upstream Compliance Team

To find out what you can expect from us and what we expect from you, go to GOV.UK and search, 'HMRC charter'.



Corresponding with HMRC by email

Use the following information to decide whether you want to deal with us by email. We take the security of personal information very seriously. Email is not secure, so it's very important that you understand the risks before you email us. We will not deal with you by email unless you tell us you accept the risks of doing so.

About the risks

The main risks associated with using email that concern HMRC are:

- confidentiality and privacy – there's a risk that emails sent over the internet may be intercepted
- confirming your identity – it's crucial that we only communicate with established contacts at their correct email addresses
- there's no guarantee that an email received over an insecure network, like the internet, has not been altered during transit
- attachments could contain a virus or malicious code

How we can reduce the risks

We'll desensitise information, for example by only quoting part of any unique reference numbers. We can also use encryption. We're happy to discuss how you may do the same but still give the information we need.

If you do not want to use email

You may prefer that we do not respond by email, for example because other people have access to your email account. If so, we're happy to respond by another method. We'll agree this with you either by telephone or in writing via post.

If you do want to use email

If you would like to use email as one of the ways HMRC will contact you, we'll need you to confirm in writing by post or email:

- that you understand and accept the risks of using email
- that you're content for financial information to be sent by email
- that attachments can be used

If you are the authorised agent or representative, we'll need you to confirm in writing by post or email that your client understands and accepts the risks.

Please also:

- send us the names and email addresses of all people you would like us to use email with - you, your staff, your representative, your agent, for example
- confirm you have ensured that your junk mail filters are not set to reject and/or automatically delete HMRC emails

How we use your agreement

Your confirmation will be held on file and will apply to future email correspondence. We'll review the agreement at regular intervals to make sure there are no changes.

Opting out

You may opt out of using email at any time by letting us know.

More information

You can find more information on HMRC's privacy policy. Go to www.gov.uk and search 'HMRC Privacy Notice'.