HMRC - VATSC12000 - Solicitors Investing Clients’ And Other Money

It is customary for solicitors in practice to receive and hold money on behalf of their clients. Such money must be paid into a bank account (either current or deposit) and must be kept separate from the practice’s own bank account. The account may be either designated for a particular client or a general, undesignated client account.

Occasionally solicitors may also hold money for non-clients. In this situation the rules in respect of interest payments are the same as for its own clients: that is, it depends on whether or not there is a designated account.

Interest on the bank deposits

Where the money belonging to a particular client is deposited in a separate designated account, that client is usually entitled to the interest. When the interest is passed from the solicitor to the client it is a flow of money, not consideration for any supply, and so is outside the scope of VAT.

Where client’s money is held in a general account it is usual for the practice to keep any interest earned from the bank. However, a solicitor may occasionally pass to the client a sum equivalent to the interest that would have been earned if the money had been in a separate designated account.

Any interest earned, either by the solicitor or if it is passed to the client, is regarded as consideration for a supply of services to the bank. The supply is exempt under the VAT Act 1994, Sch 9, Grp 5, item 2. The gross interest received is the amount of the exempt output and may affect the partial exemption calculations of whoever keeps it.

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