



Taxation for Business (VAT)

VAT – Bad Debt Relief

Within the VAT system, sometimes a business has to pay over VAT while not having received payment from their customer. Bad debt relief enables any business that has made supplies for which they have accounted for and paid over the VAT but for which they have not received payment, to claim a refund of the unpaid VAT amount.

What conditions apply?

You can reclaim VAT that you have paid to HMRC and which you have not received from the customer. The conditions are that:

- The debt is more than six months old and less than three years and six months old.
- You have written off the debt in your VAT accounts and transferred it to a separate bad debt account.
- The debt has not been sold or handed to a factoring company.
- You did not charge more than the normal selling price for the items.

How do I make a claim?

If you are entitled to claim bad debt relief, you add the amount of VAT you are reclaiming to the amount of VAT you are reclaiming on your purchases (input tax) and put the total figure in Box 4 of your VAT return.

To work out how much bad debt relief you can claim on a VAT inclusive balance, you need to apply the VAT fraction to the unpaid amount.

In practice it is simplest to put through a credit note to write off the unpaid balance.

What records do I need to keep?

You must keep records for four years from the date of the claim to show;

- the time and nature of supply, purchaser and consideration (a VAT invoice usually shows this);
- the amount of VAT and the accounting period that it was paid to HMRC;
- any payment received for the supply of goods / services
- details of entries made to the refunds for bad debts

How we can help

We can help and advise further if you require specific information for your business. Call our Tax specialists:

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Carl Marsden

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