



Taxation for Business

VAT Cash Accounting Scheme

There are various VAT schemes in place designed to alleviate the administrative burden of a business.

What is the VAT Cash Accounting Scheme?

This scheme enables a business to account for and pay VAT based upon the cash received and paid, rather than on the basis of the invoices that are raised and received.

Who can join the Scheme?

Your business can apply to join the scheme if it has reasonable grounds to believe that your taxable turnover will not exceed £1,350,000 in the next 12 months. Your VAT returns must be up to date and you must have paid over all the VAT due (or agreed a basis to settle the outstanding amount in instalments). You can only join the scheme if you have not been convicted of any VAT offences in the past year (e.g. late returns).

Standard and zero-rated supplies all count towards the £1,350,000, with the exception of any anticipated sales of capital assets that have been previously used within the business. Exempt supplies are also excluded.

You can start using the scheme without having to inform HMRC. Even if you use cash accounting, you must still account for VAT using standard VAT accounting for:

- Goods that have been bought or sold under lease or hire-purchase agreements.
- Goods that have been bought or sold under credit sale or conditional sale agreements.
- Supplies that have been invoiced but full payment is not due within 6 months.
- Supplies that have been invoiced in advance before the goods or services have been delivered.

This means that you can reclaim all the VAT on these transactions as soon as you receive the VAT invoice. If your annual turnover reaches £1,600,000, you have to leave the scheme immediately. Once you leave the scheme, VAT is due on all supplies that have not already been accounted for. Outstanding VAT can, however, be accounted for on a cash basis for 6 months after you have left the scheme.

Advantages and Disadvantages to the Scheme

Advantages

- Output tax is not due until you receive payment of your sales invoices. If you have customers who pay their bills promptly, there's little advantage to this scheme.
- There is automatic bad debt relief. If you do not receive payment, no tax is due.
- Some find it easier to think in terms of cash flows in and out of the business rather than the invoiced amounts.

Disadvantages

- You cannot recover input tax until suppliers' invoices have been paid.
- This scheme does not benefit a net repayment business. If you are just starting up in business, initial expenditure on equipment etc will be high, so your input tax would exceed output tax. It is suggested that you should delay using this scheme. This gives you time to recover the initial input tax.

How do I account for the VAT?

You have to account for output tax when payment is received.

Credit / Debit Cards: Received / paid on the date of the sales voucher.

Direct Debits & Standing Orders: Received / paid on the day that the bank account is credited.

Cheques: Received on the date the cheque is received (or if later, the date on the cheque). If the cheque is not honoured, an adjustment can be made.

Part Payments: You must account for VAT on all receipts/payments irrespective of whether they are part payments. You will need to allocate part payments to invoices in date order (make sure the earliest is shown first) and make a reasonable apportionment to any part payment of an invoice allocated to VAT.

What records do I need to keep?

The most important record to keep when using the Cash Accounting Scheme is the cash book. This summarises all the payments that you have made and received and will have a separate column for VAT. You can then easily cross-reference payments to the appropriate sales / purchase invoice.

Obviously the normal requirements regarding copies of VAT invoices and evidence of input tax also applies.

How we can help

We can help, advise and consider whether the cash accounting scheme would be beneficial for your business and also help you with setting up your accounting software to deal with cash accounts.

Call our Tax Specialists for more help

We have offices throughout Staffordshire and North Shropshire. Our Tax specialists are:

Leek Office – 01538 393600

Seaton Kennerley

Uttoxeter Office – 01889 563550

Carl Marsden

Newport Office – 01782 813330

Mervyn Davies

To email: initialsurname@howsons.com

(N.B. When addressing the Leek Office, please replace .com with .net e.g. skennerley@howsons.net or cmarsden@howsons.com)

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