

VAT Cash Accounting Scheme

UNDERSTANDING THE CASH ACCOUNTING SCHEME

As an overview, the Cash Accounting Scheme allows you to account for output tax on a payment received basis rather than when the tax invoice is issued. To mirror this treatment, input tax can only be claimed once payment has been made for supplies. This is one amongst a number of schemes offered by HM Revenue & Customs (HMRC) aimed at easing the administrative burdens small businesses face.

The scheme provides a number of advantages, such as:

- a cash flow advantage, especially if you offer extended credit to your clients/customers.
- automatic bad debt relief.

However, this scheme may not benefit businesses that are paid promptly at the point of sale, regularly reclaim VAT or make continuous supplies of services.

Please note that this scheme can be used together with 'Annual accounting scheme'. This scheme cannot be used together with the 'Flat rate scheme'. It must be noted that the 'Flat Rate Scheme' does have its own cash based method of accounting. In addition, the scheme can be used by partially exempt businesses.

Eligibility for the scheme

A business is eligible for the scheme providing the following conditions are met, most of which are self-explanatory:

- you expect the value of your taxable supplies in the next year not to exceed £1,350,000;
- you have no VAT returns outstanding;
- you have not been convicted of a VAT offence in the last year;
- you have not accepted an offer to compound proceedings in connection with a VAT offence in the last year;
- you have not been assessed to a penalty for VAT evasion involving dishonest conduct in the last year;
- you do not owe HMRC any money or if you do, you have made arrangement with HMRC to clear the total amount of your outstanding VAT payments;
- HMRC have not written to you withdrawing use of the scheme during the last year;
- HMRC have not written to you and denied you access to the scheme; and
- you comply with the conditions set out in VAT Notice 731.

The taxable supplies figure is the total of your standard, reduced and zero rated supplies excluding VAT. For this purpose, exempt supplies or sale of capital assets can be ignored. If you exceed the threshold for the scheme, provided that the estimates were made on reasonable grounds, HMRC will not levy a penalty.

The scheme can be used until your taxable supplies including the disposal of stock and capital assets does not exceed £1,600,000. Once this figure has been exceeded, excluding 'one-off' increases in sales, you will have to leave the scheme at the end of your current tax period.

APPLYING FOR THE SCHEME

HMRC do not require notification of entering into the scheme provided your business is eligible. If your business is already VAT registered, the scheme can be entered from the start of the next VAT period. Care must be taken not to account for VAT twice on both purchases and sales.

Similar to entering the scheme, HMRC do not need to be notified when exiting the scheme, a business can leave the scheme at the end of a VAT period.

USING THE SCHEME

The cash accounting scheme once applied must be used for the whole of your business apart from:

- goods bought and sold under lease purchase, hire purchase, conditional sale or credit sale agreements
- goods imported or acquired from another European Community Member State
- certain goods where the purchasers must account for output tax, due to 'reverse charging'
- supplies where you issue a VAT invoice and payment of that invoice is not due for 6 months from the date of issue
- supplies of goods or services where you issue a VAT invoice in advance of making a supply or providing the goods

Output tax

There are different tax points when accounting for output tax, dependent upon the payment method.

- Cash (coins and notes) it is the date that you receive the money.
- Bank transfers like, giro, standing orders or direct debits, the date is when your account has been credited with the payment.
- Credit/debit cards it is the date the sales voucher is issued
- Cheques are the date you receive the cheque or the date on the cheque, whichever is later.

Unless a deposit is taken as a security, a deposit will trigger a tax point and hence output tax needs to be accounted for. There are special rules for agents, factoring, selling debts, Imports and Exports (outside the EU), Acquisitions and Dispatches (within the EU), part payments, payments in kind and foreign currency payments.

Input tax

The tax point for accounting for input tax is:

- Cash (coins and notes) it is the date that you pay the money.
- Bank transfers like, giro, standing orders or direct debits, the date is when your account has been debited with the payment.
- Credit/debit cards it is the date the sales voucher is issued
- Cheques are the date you send the cheque or the date on the cheque, whichever is later.

Care must be taken for a partially exempt business, VAT Notice 706 provides further details on partial exemption.

Part Payments

Example 1

Net amount	£1,000
VAT at 20%	<u>£200</u>
Gross total	<u>£1,200</u>

Payment received of £900, therefore the following fraction is used to work out the VAT to be allocated:

$$£900 / £1,200 \times 100\% = 75\% \text{ the percentage is applied to the total VAT due of } £200 \times 75\% = £150$$

Therefore £150 needs to be accounted for as VAT with the balance remaining of £50 accounted for when payment is received. If payment is received again in part, then a similar exercise needs to be performed to allocate the VAT due.

Example 2

Invoice A		Invoice B	
Date	1/6/11	Date	2/6/11
Net amount	£1,000	Net amount	£2,000
VAT at 20%	<u>£200</u>	VAT at 20%	<u>£400</u>
Gross total	<u>£1,200</u>	Gross total	<u>£2,400</u>

Payment received of £2,000, £1,200 should be allocated to the Invoice A first, leaving a balance of £800. As in the example1 above the following fraction is used to work out the VAT to be allocated:

$$£800 / £2,400 \times 100\% = 33\% \text{ the percentage is applied to the total VAT due of } £400 \times 33\% = £132$$

Therefore £132 (from Invoice B) together with £200 (from Invoice A) needs to be accounted for as VAT. The balance remaining of £268 (from Invoice B) is to be accounted for when payment is received. If payment is received again in part, then a similar exercise needs to be performed to allocate the VAT due.

Record keeping and administration

In regard to record keeping, the same rules apply as to all VAT registered businesses, details of which can be found in VAT Notice 700/21. However, there are additional record keeping requirements, for cash payments received in coins or notes, the customers copy of the invoice must be endorsed with the amount and date of payment. Similarly, if your business has paid suppliers in coins or notes your copy of an invoice must be endorsed in the same way.

FURTHER CONSIDERATION

Further details can be found on the HMRC website, as a source of reference please refer to the VAT Notice 731, produced by HM Revenue & Customs (HMRC).

http://customs.hmrc.gov.uk/channelsPortalWebApp/channelsPortalWebApp.portal?_nfpb=true&_pageLabel=pageVAT_ShowContent&id=HMCE_CL_000348&propertyType=document

This information is provided for general guidance only. Please contact us if you require advice on any specific part thereon.