

# Cash and VAT

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**We can help you manage your VAT obligations as efficiently as possible and improve your cash position at the same time. The opportunities are all focused on paying and reclaiming the right amount of VAT at the right time.**

## The right rate of VAT

This is important for several reasons:

- If you are a retailer, there are a variety of reduced or zero-rate reliefs which may apply to the goods or services you sell to your customers
- A temporary reduced rate of 5% applies to many services related to hospitality, holiday accommodation and attractions until 12 January
- If you are a charity, healthcare provider or educational establishment, there are a variety of VAT reliefs available on the costs you incur
- For capital transactions, VAT may not be due, for example on the disposal of property.
- If VAT is charged in error by your supplier, HMRC may not allow you to recover VAT even though you have paid it.

## VAT at the right time

- Do you have to pay it now? Do you have to pay it at all?
- Do you have to issue a VAT invoice or VAT receipt?
- Are you eligible for the Cash Accounting Scheme, which defers VAT until you are paid?
- If you issue VAT invoices at the start of your VAT period, you may be paid before your VAT return is due
- If you are in the payment on account regime, are your payments too high?
- If your sales have declined, do you need to remain registered for VAT?

## VAT Schemes

HMRC promotes various VAT schemes designed to reduce your VAT burden:

- Cash Accounting
- Flat Rate
- Annual Accounting

Cash Accounting defers VAT on income until you are paid, even if you issue VAT invoices to your customers. This is particularly beneficial if you offer extended payment terms or are exposed to unusual levels of bad debt.

The Flat Rate scheme simplifies your VAT compliance by applying a fixed VAT percentage to arrive at the VAT due on your income. In the right circumstances, the set percentage for your business sector may also result in a saving compared to normal VAT accounting.

If you use Annual Accounting, you submit a return once a year and pay VAT periodically on account before the submission deadline.

There are also a variety of more bespoke VAT schemes for travel businesses, charities in relation to membership fees and retailers.

## The right VAT returns

If you regularly recover VAT from HMRC, you can submit monthly returns. If your business is in hibernation at present, you can switch to monthly returns for the next few months and recover VAT more quickly from HMRC. You can submit these returns immediately after the period end.

If your business is seasonal, would it help to move your period end to defer the payment of VAT when cash is needed most?

## Trapped VAT

If you cannot recover all your VAT, you may be using a partial exemption method or business/non business apportionment based on the ratio of taxable to total income in your organisation. HMRC will approve any method, which they agree results in a fair apportionment of costs. An apportionment based on staff, use of premises or numbers of transactions may produce a better outcome with improved recovery of VAT on your costs.

## Motoring and other staff expenses

Are you recovering VAT on motoring and other staff expenses through your expenses system? It may help to review the codes used to classify staff expenses and the requirement to collect and retain VAT receipts. You may be entitled to recover VAT incurred for the last four years.

## VAT groups

A VAT group can simplify administration for your organisation. You only submit one return for all entities in a VAT group and VAT is not due on supplies between members of the group. In certain cases, a VAT group can also reduce irrecoverable VAT.

## VAT accruals

Do you recover VAT as soon as you receive a purchase invoice? You do not need to wait until the invoice is approved for payment.

## Bad Debt Relief

Do you pay VAT when you send an invoice to your customer? You are entitled to claim the VAT back on unpaid debts as 'bad debt relief' six months after the due date for payment.

## Foreign VAT costs

Have you paid foreign VAT on costs incurred outside the UK? You may be entitled to recover this VAT by submitting a refund claim to the tax authority where the bill was paid.

## Contact us:



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