

Cash Accounting Scheme

The amount of VAT you pay HM Revenue and Customs (HMRC) is usually the difference between your sales invoices and purchase invoices, regardless whether or not they have actually been paid. The Cash Accounting Scheme allows you to pay VAT on sales when your customers pay you and reclaim VAT on purchases when you pay your supplier.

Eligibility

In order to be eligible for the Cash Accounting Scheme, your VAT taxable turnover must not exceed £1.35 million and must not be expected to exceed that limit in the next 12 months.

The Cash Accounting Scheme is not available to a business registered under the Flat Rate Scheme, but you will also not be able to adopt it if you are behind with your VAT Returns or payments, or if you have committed a VAT offence in the last 12 months.

You should also note that the Cash Accounting Scheme cannot be used for the following transactions:

- where the payment terms of a VAT invoice are 6 months or more
- where a VAT invoice is raised in advance
- buying or selling goods using lease purchase, hire purchase, conditional sale or credit sale
- importing goods from within the EU
- moving goods outside a customs warehouse

Advantages of the Cash Accounting Scheme

Many businesses find the Cash Accounting Scheme easier to administer because it deals with cash flow, rather than invoiced amounts. One advantage for many smaller businesses is the fact that there is automatic bad debt relief, as no output tax is due until a customer settles their account.

Potential Disadvantages of the Cash Accounting Scheme

Using the Cash Accounting Scheme may give an advantage where customers do not usually settle promptly, however it does mean that you cannot reclaim input tax until you settle a supplier's invoice.

It should also be noted that the scheme is not normally advisable for businesses that are due a refund, such as start-up businesses where there has been significant initial expenditure. If start-up costs have not been paid in full, it is often prudent to start on standard VAT accounting and adopt the Cash Accounting Scheme at a later date if it is beneficial.

Joining and leaving the scheme

Unlike most schemes, it is not necessary to formally apply to use the Cash Accounting Scheme. Providing that you are eligible, you can adopt the Cash Accounting Scheme from the beginning of any VAT accounting period. There is no requirement to advise HMRC that you are using cash accounting.



Waveney Tax Solutions

VAT

Cash Accounting Scheme

Likewise, you can leave the scheme at any time and you will leave at the end of any VAT accounting period. You do not have to tell HMRC that you are no longer using cash accounting, but you must pay any outstanding amount of VAT for the final period, regardless of whether or not your customers have paid you. If there is a significant liability, you can ask HMRC for an extra six months to pay this.

NB You must leave the scheme if your VAT taxable turnover is more than £1.6 million, or you cease to be eligible for any other reason (eg applying for the Flat Rate Scheme).

Need help?

Waveney Tax Solutions can help with all of your bookkeeping and VAT requirements. To find out more, please call us on 01502 370620 or 07919 924273 or email us at nina@taxassist.co.uk.