

## Record Keeping

All businesses should adopt a good bookkeeping process to maintain accurate and up to date records, however for a VAT registered business there are some specific requirements. They must issue VAT invoices, keep records of sale and purchases and keep a separate summary of VAT (called a VAT account).

VAT records must be kept for at least six years, whether you keep them in paper format or electronically. If you misplace a VAT invoice, or it is damaged and no longer legible, you should ask the supplier for a duplicate. Remember – HM Revenue & Customs (HMRC) can inspect your records and if they find fault with your record keeping, you can receive a fine of up to £3,000.

**NB** This guide does not cover Margin Schemes – there are different requirements for a business using a VAT Margin Scheme.

### VAT invoices

VAT invoices are important – you can't reclaim VAT using an invalid invoice, statement or delivery note. A full VAT invoice will need to be issued for most transactions, but one is not needed if:

- the supply is only for exempt or zero-rated sales within the UK
- you are giving goods as a gift
- you sell goods under a VAT Second-hand Margin Scheme
- your customer operates a self-billing arrangement

You can use a modified VAT invoice for retail supplies over £250 and a simplified VAT invoice for retail supplies under £250.

You must keep copies of all sale and purchase VAT invoices, either paper or electronic, even if you cancel them or they are produced by mistake.

When you issue a VAT invoice it must include:

- a unique invoice number that follows on from the last invoice
- your business name and address
- your VAT registration number
- the date of issue (unless it is a simplified invoice)
- the 'tax point' or date of supply (if different to the issue date)
- the customer's name and address (unless it is a simplified invoice)
- total amount excluding VAT (unless it is a simplified invoice)
- total amount of VAT charged (unless it is a simplified invoice)
- price per item, excluding VAT (unless it is a simplified invoice)
- quantity of each item (unless it is a simplified invoice)
- if discounts apply, the rate per item (unless it is a simplified invoice)
- rate of VAT charged per item and show if any items are exempt or zero-rated
- total amount including VAT (not needed for a full invoice, but probably helpful for the customer)

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VAT invoices should be issued within 30 days of the date of supply or within 30 days of the date of payment if you are paid in advance.

**NB** If you use the VAT Cash Accounting Scheme you must stamp invoices with the date and amount of cash paid.

### Tax point – the time of supply

The tax point for a transaction is the date the transaction takes place for VAT purposes. Not only does the tax point need to be shown on VAT invoices, it also determines which VAT period the transaction belongs to and which return it must be included on.

It can vary, but usually the tax point is:

- No invoice needed - date of supply
- VAT invoice issued - date of invoice
- VAT invoice issued 15 days or more after the supply - date the supply was made
- Payment made or invoice raised in advance of supply - earliest of payment or invoice date
- Payment in advance but no VAT invoice issued - date of payment

**NB** If you use the VAT Cash Accounting Scheme, the tax point is always the date on which payment is received.

The date of supply is usually:

- Supply of goods - the date they are sent, collected or made available
- Supply of services - the date the work is finished

**NB** There are special rules for certain trades, eg building & construction and barristers and for special situations, eg business items taken for personal use.

### Keeping records for VAT purposes

You can keep your records in paper format or electronically, but either way you must keep:

- copies of all invoices you issue
- original copies of all invoices you receive
- copies of self-billing arrangements (where the customer prepares the invoice)
- name, address and VAT number of any self-billing suppliers
- debit or credit notes
- import and export records
- records of items you can't reclaim VAT on - eg business entertainment
- records of any goods you give away or take from stock for your private use
- records of all the zero-rated, reduced or VAT exempt items you buy or sell
- a VAT account

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You must of course also keep all general business records such as bank statements, cash books, cheque stubs, paying-in slips and till rolls. All VAT records must be kept for a period of four years.

### The VAT account

You must keep a separate record of the VAT you charge and the VAT you pay on your purchases and this record is referred to as a VAT account. You will use the figures in your VAT account to prepare your VAT returns.

A VAT account must include:

- your total VAT sales
- your total VAT purchases
- the VAT you owe HMRC
- the VAT you can reclaim from HMRC
- if you use the Flat Rate Scheme, the flat rate percentage and turnover it applies to
- the VAT on any EU acquisitions (purchases) or dispatches (sales)

If you discover a mistake on a VAT return, the VAT account must also include a note of the date when the error was discovered, how it happened and how it was corrected. You may of course also need to notify HMRC of the error.

If you write off an invoice as a bad debt, you must keep a separate 'VAT bad debt account'. The debt must be older than 6 months and for each bad debt you must show:

- total amount of VAT involved
- amount written off and any payments you've received
- the VAT you're claiming on the debt
- the VAT period(s) you paid the VAT and are claiming the relief
- invoices details like date, customer name

### Finding an error on a VAT return

If you discover that an error has been made on a VAT return within the last four years, you can adjust the current VAT account to correct the error, providing that it is below the reporting threshold and was not a deliberate error.

You can adjust your next VAT Return if the net value of any errors is £10,000 or less, but you can also adjust your next VAT Return if the error is up to 1% of your box 6 figure (up to a maximum of £50,000).

The adjustment is made by adding the net value to box 1 for tax due to HMRC, or to box 4 for tax due to you.

If an error is not within the threshold limits above or was deliberate, it must be reported to HMRC. HMRC may charge penalties and interest if an error is made due to careless or dishonest behaviour.



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#### Reporting an error

If an error must be reported to HMRC, eg if it happened more than four years ago, it will be dealt with by the VAT Error Correction Team. You should use form VAT652, which can be downloaded from the HMRC website, to disclose full details. Alternatively you can notify HMRC in writing, but you must ensure that all information requested on form VAT652 is included in your letter.

HMRC will respond with a notice and statement of account advising you if the amount you have calculated is correct, the total amount due (if any) and of any interest you owe. If you do not receive an acknowledgement within 21 days of submitting the information, you should contact the VAT Error Correction Team.

#### Need help?

Waveney Tax Solutions can help with all your record keeping and VAT requirements. To find out more, please call us on 01502 370620 or 07919 924273 or you can email us at [nina@waveneytaxsolutions.co.uk](mailto:nina@waveneytaxsolutions.co.uk).