



Cash Basis

From 6 April 2013, qualifying small businesses have been able to use a simplified method of accounting called the 'cash basis', rather than the traditional accounting method (accruals basis).

Who can use the cash basis?

The cash basis option is only available to sole traders and partnership businesses with turnover less than the VAT registration limit (currently £81,000). It is not available to limited companies and limited liability partnerships (LLPs) and there are certain types of business that are specifically excluded, including:-

- Lloyd's underwriters
- farming businesses with a current herd basis election
- farming and creative businesses with a profit averaging election
- businesses that have claimed business premises renovation allowance
- businesses that have claimed research and development allowance
- dealers in securities
- ministers of religion
- intermediaries treated as making employment payments
- managed service companies

If you have elected to use the cash basis, you must continue to do so until either:-

- you elect to use the standard accruals basis, eg because circumstances have changed and it is no longer beneficial; or
- your cash receipts exceed twice the VAT threshold, ie £162,000 for the current year

Is the cash basis beneficial?

The cash basis can make record keeping easier and may suit smaller businesses because you will not pay tax on money not yet received, but you do not have to use the cash basis and it may not always be beneficial to do so.

If any of the following apply, it will probably be better to use the traditional accruals method of accounting:-

- if you have losses that you want to set against other taxable income
- where you have paid allowable interest of more than £500
- if your business is VAT registered
- if you have high levels of stock
- if detailed accounts are required for any other reason

How does the cash basis work?

If you adopt the cash basis, you will record your income when it is received (so not by the date of any invoices you may issue), which means you only count income actually received in the year. Similarly, you will record your expenses when you actually pay for them, not when you receive a bill. This applies to all payment methods, ie cash, cheque, bank transfers, credit or debit card.



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If you have more than one business, you must use the cash basis on all of your businesses, but the combined turnover of your businesses must be below the VAT threshold.

In contrast to the traditional accruals basis of accounting, capital expenditure on equipment (which includes vans) is an allowable expense. This does mean that there are no capital allowances on equipment, but you can still claim capital allowances on cars as the purchase is not an allowable deduction.

There is a restriction on the amount that you can claim for allowable loan interest paid and this is limited to £500 interest each year.

If you adopt the cash basis and your business makes a loss, you will not be able to offset it against any other source of income

There are special rules to follow if you have previously used the traditional accounting method and wish to adopt the cash basis and for the situation when you have been using the cash basis and need to change to the traditional accruals method.

Can a VAT registered business use the cash basis?

You can still adopt the cash basis if your business is VAT registered, providing that your turnover is less than the VAT threshold (currently £81,000) when you join.

You can choose to record your business income and expenses either including or excluding VAT, but you must treat the income and expenses in the same way. If you choose to include VAT, then you must record VAT payments you make to HM Revenue & Customs as expenses of the business and VAT refunds you receive from HM Revenue & Customs as income of the business.

Need help?

Waveney Tax Solutions can review your business to see if the cash basis is right for you. We can also provide you with an easy to use bookkeeping system to help you record your income and expenses in the right way.

If you would like us to assist you, please call us on 01502 370620 or 07919 924273, or alternatively you can email us at nina@waveneytaxsolutions.co.uk.