

VAT Update

Paying VAT during an economic downturn

As a result of current economic conditions, many VAT registered businesses are experiencing difficulties with paying their VAT liabilities, and would like help with improving their cash flow, as well as with arrangements to pay the VAT due to HM Revenue & Customs (HMRC). We have identified a number of methods that you may be able to use to improve your cash flow position, and what you should do if you find that you cannot pay the VAT due with a return.

Improving Cash Flow

Cash accounting

If you don't currently use cash accounting to account for VAT, this scheme will allow you to only account for VAT on sales (output VAT) to HMRC when you receive payments from customers. Your business will be eligible to use the scheme if you do not expect to have net turnover of more than £1.35 million in the next twelve months, and have no outstanding VAT returns or liabilities.

You can start to use the scheme from the beginning of a VAT quarter, without needing to notify HMRC. The only significant downside is that you won't be able to reclaim VAT on purchases (input VAT) until this has been paid.

Operating the scheme can significantly improve cash flow, particularly if there is a significant time lag between the issuing of sales invoices and the receipt of payment from customers. It also provides automatic relief for VAT on bad debts, which normally can only be claimed back after six months.



Sales invoices

Businesses which don't use cash accounting will usually account for output VAT by invoice date. If this applies to your business, you only need to account for the output VAT when the sales invoices are issued, not when they are produced. So if you produce tax invoices on the last day of your VAT period, and don't post them until the next day, you can overstamp them with the correct issue date, and delay payment of the VAT by three months.

Under the tax point rules, you have to issue your invoice within 14 days of the basic tax point (date of supply). This creates an actual tax point on the date the invoice is issued, so if it spans the end of a VAT period, you can defer paying the output VAT by three months.

Purchase invoices

If your business uses normal VAT accounting, it can also accelerate the recovery of input VAT by accruing for invoices that have not been fully processed onto your accounts system by the time the VAT return report is generated.

Input VAT on your purchases can be reclaimed on the VAT return covering the date of your purchase invoices, providing you have the necessary evidence to do so. For many businesses, it is not always possible to authorise and enter all the invoices dated within the VAT return period into the accounting system before the VAT return cut-off date. A lot of businesses simply reclaim this VAT on the next VAT return. However, by accruing for this input VAT, you can reclaim it more quickly and so help improve your cash flow.

Cash flow benefits of on-line filing option

HMRC offer an online facility to file VAT returns, which can give up to twelve additional days to pay the tax due on a return. This can be shown by way of an example.

The normal due date for filing a paper VAT return for the quarter to 31st March 2009 will be 30th April 2009. An extra seven calendar days are available to file the VAT return online and make electronic payment, i.e. by 7th May 2009. Where payment is made by direct debit, this will be collected on the third working day after the extended deadline, namely 12th May 2009.

Where possible, we would encourage our clients to use this facility, which will become mandatory for all VAT-registered businesses with a turnover above £100,000 from 1 April 2010.

Annual accounting



Your business may be eligible to account for VAT using a single annual VAT return, if your annual taxable turnover is less than £1.35 million.

Businesses which use the scheme make nine monthly or three quarterly payments on account during the year. You only need to complete one VAT return at the end of the year when you either make a balancing payment or receive a balancing refund. You also get two months to complete and submit the return, and pay the balance of the VAT due.

The main advantages of the scheme are reduced paperwork and easier management of cash flow, and it will be of most benefit to businesses which make regular payments of VAT to HMRC. If you would like more information about how the scheme works or would like us to help with an application to join the scheme, please let us know, and we would be happy to help.

VAT Flat Rate Scheme

You may also be eligible to join this scheme, if you have a VAT-exclusive taxable turnover of less than £150,000, and a total turnover of less than £187,500. The scheme provides an alternative to the normal method of VAT accounting.

With the flat rate scheme you calculate the output VAT due as a fixed percentage of your turnover in a VAT period, instead of separately working out output VAT and input VAT. The percentage varies according to the category of your business. Eligible businesses which deal in waste or scrap, for example, can account for VAT using a fixed percentage of 9.5%. This percentage takes in to account the average input VAT that businesses in that sector would be entitled to reclaim in the normal way.

Businesses which have low levels of input VAT may therefore benefit from using the scheme, as the effective rate at which they pay VAT may be higher than the flat rate percentage which applies to their business sector. We would be happy to review your VAT records to determine if using the scheme would be beneficial, and if appropriate to submit an application to HMRC.

Leasing vehicles

Leasing vehicles instead of buying them outright can help with cash flow, and is also more VAT efficient.

VAT paid on the purchase price of a vehicle cannot usually be reclaimed, unless the vehicle will be exclusively used for business purposes and will never be available for private use. In most cases this is unlikely, and so the VAT can't be recovered from HMRC.

On the other hand, where a car is leased, and is available for private use, 50% of the VAT charged on the monthly hire payments can be recovered.

As with vehicles which have been purchased, all of the VAT charged can be reclaimed if the vehicle will be used exclusively for business purposes.



What to do if you cannot pay your VAT

Time to pay

If you will have difficulties in paying the tax due with a VAT return, you should contact the HMRC Business Payment Support Line (0845 302 1435) as soon as possible. They can help by agreeing to accept VAT payments over a longer period, for example part payments on a weekly basis, which won't be subject to surcharges.

Alternatively, we will be happy to contact HMRC on your behalf if preferred, and can advise on what information HMRC will need, as well as negotiate an acceptable payment plan. We can also help you to challenge assessments which HMRC have already issued for unpaid VAT or surcharges, and with applications for more time to pay.

Default surcharges

If you don't submit your VAT returns or pay your VAT on time, you may be liable to pay a surcharge, as well as the VAT due to HMRC. The cost of this surcharge increases with each late payment or return, from 2% of any unpaid VAT to 5%, then 10%, and finally up to a maximum of 15%.

You won't have to pay a surcharge for the first time when a VAT return or payment is late. After the second late payment or return, you will be issued with a 'surcharge liability notice', warning that a surcharge will be due if you 'default' again during the next twelve months. If another VAT return or VAT payment is late during this time, HMRC will extend the surcharge liability notice period by another twelve months.

Where a VAT payment to HMRC is made on time, but the return is submitted late, no surcharge is due, but this will still be counted as a default, so that the next late payment may be subject to a higher penalty.

Two important points to recognise are as follows:

1. No penalty is issued in relation to the 2% and 5% periods if the amount of the penalty would be £400 or less.
2. A penalty is based on the amount of VAT that is unpaid by the due date.

We would therefore recommend that if you cannot pay the full amount of the VAT due, you should make a part payment to reduce the amount of the surcharge, and to support any application to spread payment over a longer period. You should also submit your VAT returns on time, even if you cannot pay the VAT due.

How we can help

If you would like to obtain additional information on any of these points, or would like to discuss how we can help your business, please contact Gary Scully on **01204 414243** or by email to gary.scully@cowgills.co.uk



The information in this fact sheet should not be relied upon as giving sufficient advice in any specific case

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