

# Benefits of VAT Cash Accounting



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## How it works on the standard scheme for VAT

If you use the standard VAT scheme, then your VAT is calculated using the date that's on the invoice.

VAT is then reported HMRC every quarter (three months).

In a VAT quarter the amount of VAT you raise on invoices dated within that quarter is payable to HMRC, minus the amount of VAT your suppliers have charged you on invoices during that quarter.

## How VAT Cash Accounting works

In cash accounting however, your VAT is based on **when the invoices are paid, not when they are dated.**

You might create an invoice in May, which isn't paid until the following October.

Your VAT will be based on the date of that October payment.



## Would the VAT Cash Accounting scheme suit my business?

This depends on your business, and how your billing and payment cycles fit together.

### Take a garage as an example...

Typically, a garage will repair a car and create an invoice once the job is done, which the customer pays straight away.

The suppliers for the parts are usually supplied on credit basis, and are paid the next month.

**This business would be better on the standard scheme, so they can claim the VAT on the parts before they actually pay out the money. This reduces their VAT bill and improves cash flow.**

However, a consultant will usually raise invoices to customers with payment terms of 30 to 90 days. Consultants don't generally have many costs, but the costs they do have are usually not on credit and are paid straight away.

**In this scenario, for a consultant, cash accounting would be more beneficial. This is because the VAT would not be due to HMRC until the customers have paid the invoices, therefore improving cash flow.**



## Cash accounting for businesses with bad debt

Cash accounting is also beneficial if a business experiences a high amount of bad debt.

If a customer does not pay an invoice, then the VAT won't be payable to HMRC.

**On the standard scheme a business must wait for 6 months after the date on the invoice to write it off to bad debt and claim the VAT relief.**

- ✓ If the customer does not pay the invoice, you don't pay the VAT to HMRC
- ✓ You don't need to wait to write the debt off before claiming the VAT relief





## Looking for more help with VAT Cash Accounting?

If you have any further questions, simply call us on 020 3355 4047 and one of our friendly accountancy advisors will be happy to help.

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