CARBON ACCOUNTANCY

The Carbon Accountancy

Guide to the VAT Cash Accounting Scheme

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Disclaimer

When considering VAT it is important to understand the implications. This guide sets out the general rules applicable to VAT. It is not intended to be a substitute for proper professional advice from your accountant or tax advisor.

Cash Accounting Scheme

- Pay VAT on your sales when your customers pay you
- Reclaim VAT on your purchases when you have paid your suppliers

Who can use the Cash Accounting Scheme

You can use the Cash Accounting Scheme if your estimated VAT taxable turnover during the next tax year is not more than £1.35 million. Your VAT taxable turnover includes any standard, reduced and zero-rated sales and other VAT taxable supplies, but excludes VAT itself, supplies that are exempt from VAT, and capital asset sales.
Once you start to use cash accounting, you can continue to do so until your VAT taxable turnover reaches £1.6 million.

Who cannot use the Cash Accounting Scheme

- you are not up-to-date on your VAT Returns and VAT payments
- you have been convicted of a VAT offence or charged a penalty for VAT evasion in the last year
- your VAT taxable turnover is over £1.35 million per year

When you must not use cash accounting

Even if you use cash accounting, you must still account for VAT using standard VAT accounting when you:

- Buy or sell goods using lease purchase, hire purchase, conditional sale or credit sale
- Import goods or acquire goods from other EU states
- Remove goods from a Customs warehouse or free zone
- Issue a VAT invoice that isn't due to be paid for six months or more
- Issue a VAT invoice in advance of providing goods or service

Benefits of cash accounting

Using cash accounting may help your cash flow, especially if your customers are slow payers. You do not need to pay VAT until you have received payment from your customers. So if a customer never pays you, you don't have to pay VAT on.

Disadvantages of cash accounting

- You cannot reclaim VAT on your purchases until you have paid your suppliers. This can be a disadvantage if you buy most of your goods and services on credit.
- If you regularly reclaim more VAT than you pay, you will usually receive your repayment later under cash accounting than under standard VAT accounting, unless you pay for everything at the time of purchase.

- If you start using cash accounting when you start trading, you will not be able to reclaim VAT on most start up expenditure, such as initial stock, tools or machinery, until you have actually paid for those items.
- If you leave the Cash Accounting Scheme you will have to account for all outstanding VAT due including any bad debts.

Joining the Cash Accounting Scheme

- At the beginning of any VAT period if you are already registered for VAT
- From the day your VAT registration starts if you are not already registered

If you are already registered for VAT when you start using cash accounting, you must make sure that you do not account for VAT twice on any sales or purchases. You must identify and separate any transactions in your records that you have already accounted for using standard VAT accounting.

Leaving the Cash Accounting Scheme

You may leave the Cash Accounting Scheme voluntarily at the end of any VAT accounting period. You do not need to notify HMRC. You can rejoin at the beginning of any VAT accounting period, provided you meet the criteria at that point in time.
You must leave the scheme if your VAT taxable turnover is over £1.6 million.
HMRC may also withdraw your use of the Cash Accounting Scheme for a number of reasons, including:

- if you calculate your VAT incorrectly
- if you are convicted of a VAT offence
- if you are assessed for a penalty for VAT evasion