

FACTSHEET 25

Vat : What Is The Cash Accounting Scheme ?

For any Vat registered person eligible to join the scheme Vat can be accounted for on the following basis :

Output Vat

Output Vat will be accounted for according to the date when payment is received for the goods or services provided .

Input Vat

Input Vat can only be accounted for according to the date of payment as opposed to the date on the supplier's invoice .

Generally speaking the scheme is beneficial for businesses that experience long delays in receiving payments from customers .

Eligibility to Join the Scheme

A Vat registered business is eligible to join the scheme if they satisfy the following requirements :

- If at the beginning of any Vat return period they have reasonable grounds for believing that the value of taxable supplies to be made in the next year will not exceed £660,000 ; and
- All Vat returns are up to date , have been submitted and paid .

Also to be eligible the taxable person must not have , in the previous year :

- Been convicted of any offence in connection with Vat ;
- Been assessed to any penalty on the basis of evasion involving dishonesty ;
- Been required to leave the scheme
- Made any payment to compound penalties that would otherwise be imposed .

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Transactions Not Covered By The Scheme

Certain types of transaction are not covered by the scheme including the following :

- Lease purchase agreements
- Hire purchase agreements
- Credit sale agreements
- Supplies where a Vat invoice is issued but full payment does not become due till six months or more after the date of issue of the invoice .

Withdrawal From The Scheme

You must withdraw from the scheme if at the end of any Vat return period the value of taxable supplies made in the previous year exceeds £750,000 . In addition a person may voluntarily withdraw from the scheme at the end of any Vat return period .

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Consequences of Withdrawal From The Scheme

Any business withdrawing from the scheme must account to Customs for all the Vat that they would have been required to pay to them had they not entered the scheme , less all Vat which they have accounted for while in the scheme .

It is therefore very likely that withdrawal from the scheme will create a significant liability to Customs with a serious impact on the business cash flow .

For further advice and before taking any action please give me a call .

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