

Foreword

This notice cancels and replaces Notice 731 (April 2004). Details of any changes to the previous version can be found in paragraph 1.2 of this notice.

The legal basis for the cash accounting scheme is in the VAT Regulations 1995, regulations 56-65. Parts of this notice have the force of law under these regulations. These parts are indicated by being placed in a box.

Example: The following text has the force of law

You cannot retrospectively apply the cash accounting scheme to your business.

Further help and advice

If you need general advice or more copies of HM Revenue & Customs notices, please ring our advice service on **0845 010 9000**. You can call between **8.00 am and 8.00 pm, Monday to Friday**.

If you have **hearing difficulties**, please ring the **Textphone** service on **0845 000 0200**.

If you would like to speak to someone in **Welsh**, please ring **0845 010 0300**, between **8.00 am and 6.00 pm, Monday to Friday**.

Other notices on this or related subjects

[700 The VAT Guide](#)

[700/1 Should I be registered for VAT?](#)

[700/11 Cancelling your registration](#)

[700/18 Relief from VAT on bad debts](#)

[700/56 Insolvency](#)

[702 Imports](#)

[703 Exports and removals of goods from the UK](#)

[704 VAT retail exports](#)

[706 Partial Exemption](#)

[725 The Single Market](#)

[732 Annual accounting](#)

1. Introduction

1.1 What is this notice about?

This notice explains how the cash accounting scheme works and the conditions you must meet if you want to use it.

1.2 What's changed?

The notice has been rewritten to make the rules of the scheme clearer.

The only changes of substance are new accounting rules for cheques, credit card payments and payments collected by third parties (paragraphs 4.4 to 4.5 and 5.2 to 5.3).

You can access details of any changes to this notice since July 2008 either on our Internet website at **www.hmrc.gov.uk** or by phoning our advice service on **0845 010 9000**.

This notice and others mentioned are available both on paper and on our Internet site at **www.hmrc.gov.uk**.

1.3 What is the cash accounting scheme?

The scheme allows you to account for VAT (**output tax**) on your sales on the basis of payments you receive, rather than on tax invoices you issue. This is different from the normal rules that require you to account for VAT on your sales when you issue a VAT invoice, even if your customer has not paid you.

However, if you choose to use the scheme, you can only reclaim the VAT incurred on your purchases (**input tax**) once you pay your supplier. Under the normal method of accounting for VAT you can reclaim VAT on purchases you make as soon as you receive a VAT invoice even if you have not paid your supplier.

1.4 Is the scheme suitable for my business?

The scheme could help your cash flow, because in general you do not have to pay VAT to us until your customer has paid you. The scheme will be especially helpful if you give your customers extended credit or suffer a lot of 'bad debts'.

However, the scheme may not give you any benefit if you:

- are usually paid as soon as you make a sale;
- regularly reclaim more VAT than you pay; or
- make continuous supplies of services.

If you find the scheme is of no benefit, you can stop using it at the end of a VAT accounting period and return to the normal method of accounting for VAT. For more information, see paragraph 6.1.

1.5 Additional rules which have force of law

The rules about cash accounting are set out in the VAT Regulations 1995. Some additional rules made under Regulations 57 and 59 are included in this notice. Their inclusion means that they have the force of law. The text relating to those rules have been placed in a box.

2. Basics of cash accounting

2.1 Am I eligible to use the scheme?

You are eligible to start using the scheme if you meet the following conditions:

- you expect the value of your taxable supplies in the next year will be £1,350,000 or less. To work out the value of your taxable supplies, see paragraph 2.2;
- you have no VAT returns outstanding;
- you have not been convicted of a VAT offence in the last year;
- you have not accepted an offer to compound proceedings in connection with a VAT offence in the last year;
- you have not been assessed to a penalty for VAT evasion involving dishonest conduct in the last year;
- you do not owe us any money or if you do, you have made arrangements with us to clear the total amount of your outstanding VAT payments (including surcharges and/or penalties);
- we have not written to you withdrawing use of the scheme during the last year;
- we have not written to you and denied you access to the scheme; and
- you comply with the conditions set out in this notice.

2.2 How do I work out the value of my taxable supplies for joining the scheme?

Your taxable supplies are the value excluding VAT, of standard, lower and zero-rated supplies you expect to make. Do not include the value of any exempt supplies or the value of any expected sale of capital assets.

2.3 How do I estimate what my future taxable supplies will be?

If you have been registered for less than 12 months, the simplest way is to estimate in the same way you did when you completed Form VAT 1 *Value Added Tax: Application for Registration*. If you have been registered for 12 months or more, you can use the value of your past year's taxable supplies as a guide.

If you believe these methods are not a good indicator of your future taxable supplies, you can make the estimate in any reasonable way.

You might use:

- your business plans;
- information relating to pre-registration business activity; or
- business information from a previous owner.

2.4 What if I estimate that my VAT turnover will not exceed £1,350,000 in the coming year and I am wrong?

We will not penalise you for this provided you can show that there were reasonable grounds for your estimate.

If your estimate of turnover had no reasonable estimate we will immediately remove you from the scheme. So it is sensible to keep a record of how the estimate was made.

2.5 What do I do if the value of my taxable supplies exceeds £1,350,000?

Once you have joined the scheme you may continue to use it until the annual value of your taxable supplies including the disposal of stock and capital assets, but excluding VAT, reaches £1,600,000.

If this figure is exceeded, you will have to leave the scheme at the end of your current tax period and use the normal method of accounting in future. For example:

If your VAT quarter ends on	and your taxable supplies in the 12 months then ending	you must leave the scheme on
30 November	Exceeded £1,600,000	30 November and begin normal VAT accounting from 1 December.

An exception to this rule for one-off sales is explained in paragraph 2.6.

You should monitor the amount of your taxable supplies regularly so that you have time to modify your books and records if you have to leave the scheme.

If you do leave the scheme, you must bring all outstanding VAT to account in accordance with paragraph 6.4.

2.6 What if my taxable supplies exceed £1,600,000 because of a ‘one-off’ increase in sales?

If you exceed the £1,600,000 limit because of a one-off increase in sales, you may be able to remain on cash accounting on condition that you meet **all** of the following criteria:

- the ‘one off’ increase has not happened before and is not expected to happen again, for example, the sale of a capital asset
- the sale arose from a genuine commercial activity
- there are reasonable grounds for believing that the value of your taxable supplies in the next 12 months will be below £1,350,000.

You must keep a record of how you came to your decision to remain on the scheme. If we find that you do not meet all the conditions then we may exclude you from the scheme immediately, or from the date your ineligible use began.

2.7 Must I use the scheme for all aspects of my business?

The following text has force of law

Subject to the exceptions listed below you must use the cash accounting scheme for the whole of your VAT registered business.

The transactions below are excluded from cash accounting both to simplify the scheme and assist the cash flow of small businesses:

- goods that you buy or sell under lease purchase, hire purchase, conditional sale or credit sale agreements
- goods imported or acquired from another European Community Member State (EC) (or goods removed from a Customs warehouse or free zone). For further information see paragraph 5.5
- certain goods on which the purchaser must account for output tax on his VAT return on the suppliers behalf due to the reverse charge (for further information see VAT Notice 735).

The transactions below are excluded from cash accounting to prevent abuse of the scheme:

- supplies where you issue a VAT invoice and payment of that invoice is not due in full within 6 months of the date it was issued;
- supplies of goods or services where you issue a VAT invoice in advance of making the supply or providing the goods.

Transactions excluded from the scheme must be accounted for under the normal VAT accounting rules as explained in Notice 700 *The VAT Guide*.

2.8 Can I use any other schemes when I am on the cash accounting scheme?

If you use the cash accounting scheme you may also be able to use the annual accounting scheme. This scheme allows you to even out your VAT payments as you pay monthly or quarterly instalments based on an estimate of your annual VAT liability. At the end of the year you complete a single VAT return and pay any balance due. For further information see Notice 732 *Annual accounting*.

The flat rate scheme cannot be used with cash accounting but it does have its own cash based method. For more information see Notice 733 *Flat rate scheme*.

3. Starting to use the cash accounting scheme

3.1 How do I start to use the cash accounting scheme?

The following text has force of law
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You cannot retrospectively apply the cash accounting scheme to your business.

If your business is already registered for VAT and you are eligible to use the scheme (see paragraph 2.1) you may use the scheme from the start of your next VAT period. There is no need to apply to use the scheme but you must avoid accounting for VAT twice on any supplies made or received before you began to use the scheme.

The following text has force of law and is designed to avoid you paying (or claiming) VAT twice when you change your method of accounting.

In order to do this you must, from the date you start to use the scheme, identify and separate in your records any payments you receive or make for transactions already accounted for under the normal method of VAT accounting. Exclude such payments from your scheme records.

3.2 I am a new VAT registration, how do I calculate my VAT due?

If you use the scheme from the first date of your VAT registration you may be eligible to reclaim, as though it was input tax, VAT on certain purchases made prior to being registered. For more information see Notice 700 *The VAT Guide*.

For example, you may be able to reclaim VAT on:

- initial stocks;
- tools;
- machinery;
- office furniture; or
- other capital equipment.

If you choose to use the scheme from the date of your VAT registration, you must recover the VAT on such purchases as follows:

The following text has force of law

If you have already paid for the qualifying goods and services, reclaim the VAT as though it was input tax on your first VAT return.

If you pay for the goods or services after you have registered for VAT, claim the VAT, as though it was input tax, in the tax period in which you pay for them.

4. Records and accounting for VAT

4.1 Record keeping

Most of the rules about record keeping are the same whether or not you use the scheme. The normal requirements are contained in VAT Notice 700 *The VAT Guide* and Notice 700/21 *Keeping records and accounts*. However, there are some extra rules that apply only to the cash accounting scheme and these are explained below.

Note: This section contains only the general rules that apply to all businesses using the scheme. You must check Section 5 for details of special rules that apply to particular transactions.

4.2 Are there any special rules for invoices?

If you receive payment in coins or notes from a customer you must, if asked, endorse the customer's copy of your sales invoice with the amount that they have paid and the date it was paid.

Similarly, if you pay a supplier in coins or notes, you must ensure that they endorse your copy of the purchase invoice with the amount you have paid and the date it was paid.

4.3 Do I have to keep any other records?

The following text has force of law

In order to operate the cash accounting scheme, your records must clearly cross-refer payments:

- **received** by you, or on your behalf, to your corresponding sales invoice;
- **made** by you to the corresponding purchase invoice;
- **made or received** to the normal commercial evidence (such as bank statements, cheque stubs, paying-in slips).

The easiest way to do this is to keep a cash book summarising all payments made and received, with separate columns for VAT. Whatever form your records take, they should always be complete and up to date.

If you are in any doubt about how to keep your records, contact our advice service (see paragraph 1.2 for contact details) for guidance.

4.4 When must I account for the VAT on my sales?

VAT on your sales (**output tax**) must be accounted for on the VAT return for the accounting period in which you receive a payment from your customer. For the purposes of the scheme, the date you are paid depends on the way in which your customer pays you. The rules are as follows:

If you are paid by	Then the date you receive payment is
cash (coins or notes)	the date you receive the money.
giro, standing order or direct debit	the date your bank account is credited with such a payment.

The following text has force of law

If you are paid by credit or debit card: you receive payment on the date you make out a sales voucher for the payment (not when you actually receive payment from the card provider).

If the credit or debit card payment is not honoured, then you do not have to account for the VAT. If you have already accounted for the VAT you can adjust your VAT account, or make a refund claim in line with Notice 700/45 *How to correct VAT errors and make adjustments or claims*. If you later receive a payment for the supply, then you must account for the VAT due on that payment.

If you are paid by cheque: you receive payment on the date you receive the cheque, or the date on the cheque, whichever is later.

If the cheque is not honoured, then you do not have to account for the VAT. If you have already accounted for the VAT you can adjust your VAT account, or make a refund claim in line with Notice 700/45 *How to correct VAT errors and make adjustments or claims*. If you later receive a payment for the supply, then you must account for the VAT due on that payment.

4.5 When can I reclaim VAT incurred on my purchases and expenses?

Once you start to use the scheme you claim the VAT you incur on your purchases and expenses (**input tax**) on the VAT return for the tax period in which you make a payment to your supplier. For the purposes of the scheme the date you pay depends on the way in which you make a payment. The rules are as follows:

If you pay by	Then the date you make payment is
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cash (coins or notes)	the date you pay the money. But remember - you need a receipted invoice to claim back VAT on purchases you have paid for in this way (see paragraph 4.2).
Giro, standing order or direct debit	the date your bank account is debited with such a payment.

The following text has force of law

If you pay by credit or debit card: the date of payment is the date a sales voucher is made out for the payment.

If you pay by cheque: the date of payment is the date you send the cheque, or the date on the cheque, whichever is later. If your cheque is not honoured, you cannot reclaim the VAT. If you have already accounted for the VAT you should adjust your VAT account, or make a voluntary disclosure in line with Notice 700/45 *How to correct VAT errors and make adjustments or claims*.

Paragraphs 5.7 to 5.10 (inclusive) contain further information relating to payments.

4.6 Partial exemption

If you incur input tax on goods and services that you use or intend to use in the making of exempt supplies, you may not be able to claim all your input tax. This is known as partial exemption. If you are partly exempt, you should see Notice 706 *Partial exemption*.

Under the normal method of accounting for VAT, businesses who are partly exempt will usually make a calculation to establish the correct amount of input tax claimable, based on purchases and sales made during a tax period.

Partly exempt businesses who use the scheme must base such a calculation on payments made and received in a tax period.

4.7 How do I fill in my VAT return?

When you fill in your VAT return remember that the amounts of VAT due and deductible are based on payments received and made, not on invoices issued. For the purposes of the scheme the 'Value of Outputs' and the 'Value of Inputs' are the amounts of payments you have received or made exclusive of VAT.

Remember, if you make supplies to other EC Member States the amount you put in Box 8 of the VAT return should be the total value of all supplies of goods and services made, exclusive of VAT, and not the total of payments received.

5. Special rules for particular transactions

5.1 Deposits

The rules about deposits are in Notice 700 *The VAT Guide*. If you receive or pay a deposit which serves as an advance payment, you must account for it in accordance with the rules in paragraphs 4.4 and 4.5.

VAT does not apply to deposits taken as a security to ensure the safe return of goods, whether you refund it upon return of the goods or retain it to compensate you for loss or damage.

5.2 Payments collected by agents on your behalf

The following text has force of law
If an agent collects payments on your behalf, you must account for VAT on the supply in the VAT period in which your agent collects payment from your customer.
The value on which VAT is due, is the amount of the taxable debt that the agent collects from your customer, not the amount of credit given to you by the agent (see section 5.8 for more information).

5.3 Factoring

The following text has force of law
Recourse agreements (that is where you remain responsible for bearing any loss resulting from an unpaid debt).
If you have assigned to a factor a debt in respect of a taxable supply you have made while using the cash accounting scheme, you must account for output tax on the supply in the VAT period in which your factor collects payment from your customer.
The value on which VAT is due, is the amount that the factor collects from your customer in relation to taxable supplies, not any lesser amount paid to you by the factor (see section 5.8). If the factor is unable to collect all (or part) of the debt, then you must account for that amount under the normal rules, in line with paragraph 4.4.
Non-recourse agreements (that is where the factor accepts the risk of any loss resulting from your customer's debt).
If you have assigned to a factor a debt in respect of a taxable supply you have made while using the cash accounting scheme, you must account for output tax on the supply in the VAT period in which your factor collects payment from your customer.

The value on which VAT is due, is the amount that the factor collects from your customer in relation to taxable supplies, not any lesser amount paid to you by the factor (see section 5.8).

If the factor is unable to collect all (or part) of the debt on your behalf, then you must account for output tax on the uncollected element of the debt, in the period in which any advance made against that debt is written off by the factor.

If, however, the factor re-assigns all or part of the debt back to you under a recourse clause, then you may be able to claim bad debt relief, subject to paragraph 6.6.

5.4 Selling debts

The following text has force of law

If you sell a debt for a taxable supply you made while using the cash accounting scheme, you must account for VAT on the supply in the VAT period in which the debt is sold.

You must account for the output tax on the full value of the supply to which the debt relates, not on any lesser amount which you receive when you sell the debt.

5.5 Imports and EC acquisitions

The following text has force of law

You cannot use the cash accounting scheme for goods you import, acquire from a business registered in another EC Member State or remove from a Customs warehouse or free zone.

You must account for VAT on such purchases under the normal VAT rules as explained in Notice 700 *The VAT Guide*. You can, however, use the scheme to account for VAT on the onward supply of such goods.

Full details of the VAT import and warehouse requirements are in Notice 702 *VAT: Imports*.

5.6 Exports and supplies to other EC Member States

If you use the scheme and export goods or despatch them to another EC Member State but don't receive the evidence of export/supply within the time limits allowed, you must account for the VAT that becomes due. This means that you account for VAT on any payments already received.

If you receive further payments for such goods you must account for VAT on these payments when you receive them.

If you later obtain evidence of export/supply you can then zero-rate the supply and adjust your VAT account for the tax period in which you obtained the evidence.

Full details of the VAT documentary evidence of export requirements are in Notice 703 *VAT: Exports and removals of goods from the United Kingdom* or, for retail exports, Notice 704 *VAT: Retail exports*.

Further information regarding acquisitions from and despatches to other EC Member States can be found in Notice 725 *VAT: The Single Market*.

5.7 Part payments

This paragraph explains what to do if you receive part payment for an invoice in circumstances where you still expect to receive the rest of the payment. Paragraph 5.8 deals with part payments where your customer has made a deduction before paying your invoice.

The following text has force of law

If you make or receive payments which:

- are a partial payment of an invoice; or
 - cover more than one invoice; or
 - relate to an invoice for supplies at different rates of tax;
- you must allocate the payment to the invoices in the order in which you issue or receive them.

Where you make or receive partial payment of an invoice and VAT is not identified separately you must treat the payment as VAT inclusive. Where you make or receive payments which relate to an invoice for supplies at different rates of tax you must apportion the amount paid or received between the different rates and treat the amounts on which VAT is due at the standard or lower rate as VAT inclusive.

Examples of how this can be done are shown in Section 8.

5.8 Payments received net of deductions

The following text has force of law

If you receive a net payment you must account for VAT on the full value of taxable supplies made by you before such deductions. This will usually be the value shown on your VAT invoice - remember not to include any amounts that are for supplies that do not attract VAT.

Some examples of payments that you may receive that are net of deductions are payments:

- where commission has been deducted by your customer; or

- where commission or payment for expenses has been deducted by a factor or agent collecting money on your behalf (see paragraph 5.2 and 5.3 for more information); or
- where commission or payment for expenses has been deducted by an auctioneer selling goods on your behalf; or
- made by an employer/contractor who has deducted income tax.

5.9 Payments in kind (for example, barter, part exchange)

The general rules about payments in kind are in Notice 700 *The VAT Guide*.

If you pay or are paid fully or partly in kind, such as by barter or part exchange, you must still account for VAT each time you make or receive a 'payment'. You receive/make 'payment' on the date you receive/supply the goods or services agreed in lieu of money.

You must account for VAT on the full tax value of the supply which is usually the price, excluding VAT, which a customer would have to pay for the supply if they had paid for it with money only.

5.10 Payments received and made in a foreign currency

If you issue VAT invoices in a foreign currency, including euro, you must follow the rules in the relevant paragraphs of Notice 700 *The VAT Guide*. If the invoice is paid in full, you will not need to convert the foreign currency payment into sterling for the purposes of the scheme. You must always declare the sterling amount of VAT due on the supply as shown on the invoice.

5.11 What about partial payments?

If you receive a partial payment in a foreign currency against an invoice expressed in:

- **both a foreign currency and sterling** you will need to calculate the amount of VAT included in the payment by determining what proportion of the total amount due on the invoice is being paid and applying that proportion to the total VAT due.

For example, if the payment in the foreign currency represents half of the total foreign currency amount due on an invoice, you must declare half of the sterling VAT figure as shown on the invoice.

- **sterling only** you will need to convert the foreign currency payment into sterling using one of the methods outlined in Notice 700 *The VAT Guide*. For the purposes of the scheme, you must be consistent in the method used. But whatever method you adopt, the exchange rate to be used is that current at the time of the supply by you. This may not be the same as the exchange rate which applies at the time you receive payment. Once you have established what the sterling equivalent of the foreign currency payment is and what proportion of the total sterling amount due this represents, you can then determine how much of the payment is VAT.

The above rules also apply if you pay for supplies from other UK businesses in a foreign currency.

Note. This section cannot deal with all the possible situations you may encounter. If you have difficulty in dealing with a transaction, please do not guess the answer. Contact our advice service (see paragraph 1.2 for contact details).

5.12 What do I do if the price agreed for a supply changes?

Any increase or decrease in consideration for a supply must be evidenced by the issue of a credit or debit note.

Where a further payment or refund is then received or made, this should be recorded in your payment record as normal.

For information on credit notes see Notice 700 *The VAT Guide*.

6. Leaving the scheme

6.1 What if I want to leave the scheme?

The following text has force of law
You can only leave the scheme at the end of a tax period.

You must then use the normal method of accounting for VAT from the beginning of the next tax period. You must bring all outstanding VAT to account in accordance with paragraph 6.4.

6.2 When must I stop using the scheme?

You must stop using the scheme if:

- you cannot comply with the record keeping requirements set out in this notice;

- during a period of one year (ending at the end of a tax period) the value of your taxable supplies, including disposal of stock and capital assets but excluding VAT, exceeds £1,600,000;
- we write to you withdrawing use of the scheme;
- you are convicted of a VAT offence;
- you accept an offer to compound proceedings in connection with a VAT offence;
- you are assessed to a penalty for VAT evasion involving dishonest conduct.

6.3 May I re-join the scheme after leaving it?

If you leave the scheme voluntarily or because the value of your taxable supplies exceeded £1,600,000, you may begin to use the scheme again from the start of a tax period, provided you are eligible to do so as detailed in paragraph 2.1.

6.4 How do I account for VAT if I leave the scheme voluntarily or because my turnover has exceeded the ceiling?

When you leave the scheme there may be supplies that you have made for which you have not been paid and as a result you have not accounted for any VAT. You will need to account for this VAT even if you have not been paid by the customer. There may also be cases where you have not paid your suppliers and you have not yet claimed your input tax. You are entitled to claim this input tax subject to the normal VAT rules. You may choose either to:

- account for all your outstanding VAT due in the period in which you stop using the scheme. This may be simpler but could have a serious effect on your cash flow if the amounts of unpaid VAT on supplies you have made are high. As an alternative you can opt for a further six months in which to account for the outstanding VAT.

Please note that you cannot opt for a further six months in which to account for the outstanding VAT if:

- we have withdrawn use of the scheme from you, or
- the value of your taxable supplies has exceeded £1,600,000 and the value of your supplies made in the previous three months totalled more than £1,350,000.

You do not need to notify us which method you have chosen.

6.5 How do I account for VAT if I use the six-month option?

To avoid double accounting you will need to keep your normal cash accounting records for the supplies you made and received while you used the scheme. In particular you will need to keep a record of payments you make and receive during the six months. In addition, you will need to keep separate records required under normal VAT accounting for new supplies you make and receive after you left the scheme.

6.6 Do I have to account for outstanding VAT on 'bad' debts when I leave the scheme?

One advantage of the cash accounting scheme is that you do not have to account for VAT on bad debts. However, if you stop using cash accounting, you have to account for VAT on supplies you have made and received even if they have not been paid for (see paragraph 6.4).

If you have not received any payment then you may be able to claim relief for your bad debts which meet the conditions of the bad debt relief scheme.

The key conditions are:

- that it is six months from the date on which the debt became due and payable or the supply was made, whichever is later;
- you can provide evidence that the bad debt has been written off in your 'refunds for bad debts' account; and
- for supplies made prior to 1 January 2003, where your customer is registered for VAT, you have notified your customer of your claim for bad debt relief.

For more information see Notice 700/18 *VAT relief on bad debts*

6.7 What do I do if use of the scheme is withdrawn or I am told I cannot use the scheme?

You will be advised in writing if we decide to deny you access or withdraw use of the scheme from you. If you are using the scheme the letter will specify when you must stop using the scheme and when you must account for the outstanding tax due on supplies made and received while using the scheme (further details on how to do this are in section 6.4).

If you disagree with our decision to deny you access to the scheme or withdraw use of the scheme, you may ask us to reconsider.

You should do this within 30 days of the date of our decision and you should let us know if you:

- think that there are facts that may not have been fully considered; or
- can provide further information.

6.8 Is there anything else I can do?

You can also appeal against our decision to a VAT and Duties Tribunal.

The Leaflet *Appeals and applications to the Tribunal* at www.hmrc.gov.uk tells you what to do. You can request a copy of the leaflet by phoning the Tribunal Centres in either:

London **020 7631 4242**

Manchester **0161 868 6600**

Edinburgh **0131 226 3551**

6.9 I've appealed to a VAT Tribunal. May I continue to use the scheme?

If you have appealed to a VAT tribunal about our decision to:

- deny you access to use the scheme;
- withdraw use of the scheme on the grounds of protection of the revenue; or
- not to allow you to continue to use the scheme once you have exceeded the tolerance

you must not use the scheme until your appeal is resolved.

If you have appealed against any other matter, then we will normally allow continued use of the scheme, pending the outcome of the appeal. However, if we consider that an appeal facilitates manipulation of the scheme, we may withdraw use of the scheme for the protection of the revenue and you will not be able to use it until the appeal is settled.

Contact our advice service (see paragraph 1.2 for contact details) for further guidance on this matter.

6.10 What do I do if I cease trading?

If you cease trading, you may continue to use the scheme while you dispose of any remaining stocks or assets. Once your VAT registration is cancelled you must follow the rules in paragraph 6.12.

6.11 What happens if my business becomes insolvent?

If your business becomes insolvent, you will need to account on your pre-insolvency VAT return for all VAT on supplies made and received by you before the date of your insolvency which has not yet been accounted for under the scheme.

Where trading continues after the relevant date, the office holder responsible for the business may continue to use the scheme subject to the rules set out in this notice.

The following text has force of law
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If the office holder does continue to use the cash accounting scheme they must, from the date of insolvency, separate in the business records any payments the business receives or makes for transactions already accounted for on the pre-insolvency VAT return.
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Further details relating to insolvency matters are in Notice 700/56 *VAT: Insolvency*.

6.12 What if I deregister?

You will have two months to submit your final return after you deregister. On this return you must account for all outstanding VAT on supplies made and received prior to deregistration.

This applies even if you have not been paid, but you can also reclaim any VAT provided that you have the tax invoices. If some of the outstanding tax relates to bad debts you may claim relief as detailed in paragraph 6.6.

You may also need to account for VAT on the value of any stocks and assets you still have. For further information see Notice 700/11 *Cancelling your registration*.

7. Transfer of a going concern

7.1 What if I sell or buy a business as a going concern and the VAT registration number has not been transferred?

Where the whole of a business which uses the scheme is transferred as a going concern and the existing owner cancels the VAT registration of that business, he must follow the rules in paragraph 6.12. The new owner can then choose, subject to eligibility, whether or not to use the scheme.

7.2 What if I sell or buy as a going concern a business which is using the scheme and the VAT registration number has been transferred?

The following text has force of law

If you sell your business as a going concern and the new owner takes over your VAT registration number, you must advise the new owner that you are using the cash accounting scheme.

The new owner must continue to operate the scheme and account for payments for supplies and purchases made by the previous owner, as if the new owner had made them.

If the new owner does not want to continue to use the scheme, they must leave the scheme as soon as possible and follow the rules in paragraph 6.4.

Remember, outstanding VAT must be accounted for on the return for the tax period in which the new owner stopped using the scheme.

If only part of a business is transferred as a going concern, you should contact our advice service (see paragraph 1.2 for contact details).

8. Accounting for part payments

(referred to in 5.7)

8.1 Accounting for VAT when a part payment is made against one invoice

Invoice A

Standard-rated goods	£1000.00
VAT	<u>£ 175.00</u>
Total	£1175.00

Step	Action	
Step 1	If a payment of £750.00 is made against invoice A, determine what percentage of that payment represents VAT as follows:	
	Amount of money received x 100 = Total invoice amount for example $\frac{£750.00}{£1175.00} \times 100 = 64\%$	percentage of VAT due
Step 2	Multiply the amount of VAT charged by the percentage calculated at Step 1 . for example $£175.00 \times 64\% = £112.00$	

In this example £112.00 of the £750.00 payment received should be accounted for as VAT.

The remaining £63.00 VAT still due to HMRC (£175.00 - £112.00 = £63.00) should be accounted for when further payment is received.

8.2 Accounting for VAT on a single payment made against more than one invoice, or against invoices for supplies at different rates of tax

Invoice B		Invoice C	
Date 01/05/98		Date 26/05/98	
Standard-rated goods	£1000.00	Standard-rated goods	£2000.00
VAT	£ 175.00	Zero-rated goods	£1000.00
		VAT	£ 350.00

Total	£1175.00	Total	£3350.00
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If a payment of £2500.00 is made against invoices B and C which does not relate to any particular supply you should allocate it as follows:

Step	Action
Step 1	<p>Allocate £1175.00 of the £2500.00 to the earliest supply ie invoice B and account for VAT of £175.00.</p> <p>The balance of the payment of £1325.00 (£2500.00 - £1175.00 = £1325.00) should then be allocated against the later supply, ie invoice C, as follows:</p>
Step 2	<p>Calculate what percentage of the remaining £1325.00 represents VAT against invoice C.</p> <p>(Remaining amount of money available ÷ Total amount still owed to you (that is invoice C) x 100 = Percentage of invoice paid.</p> <p>for example</p> <p>$(£1325.00 \div £3350.00) \times 100 = 39\%$</p>
Step 3	<p>Multiply the amount of VAT due on invoice C by the percentage calculated at Step 2</p> <p>for example</p> <p>$£350.00 \times 39\% = £136.50$</p>

In this example £311.50 (£175.00 + £136.50 = £311.50) of the £2500.00 payment should be accounted for as VAT against the £525.00 VAT due. (£175.00 + £350.00 = £525.00).

The remaining £213.50 VAT still due (£350.00 - £136.50) should be accounted for when you receive further payment.

Do you have any comments?

We would be pleased to receive any comments or suggestions you may have about this notice. Please write to:

HM Revenue & Customs
Accounting, Registration and Exports
4th Floor South West
Queens Dock
L74 4AA

Please note this address is **not for general enquiries**. You should ring our advice service about those.

If you have a complaint or suggestion

If you have a complaint please try to resolve it on the spot with our officer. If you are unable to do so, or have a suggestion about how we can improve our service, you should contact one of our Regional Complaints Units. You will find the telephone number under 'Revenue & Customs' or under 'Customs and Excise' in your local telephone book. Ask for a copy of our factsheet 'Complaints and putting things right'. You will find further information on our website at www.hmrc.gov.uk.

If we are unable to resolve your complaint to your satisfaction you can ask the Adjudicator to look into it. The Adjudicator, whose services are free, is a fair and unbiased referee whose recommendations are independent of HM Revenue & Customs.

You can contact the Adjudicator at:

**The Adjudicator's Office
Eighth Floor
Euston Tower
286 Euston Road
London
NW1 3US**

Phone: **0300 057 1111**

Fax: **0300 057 1212**

Internet: <http://www.adjudicatorsoffice.gov.uk/>