

VAT

Bad Debt Relief

If supplies have been made on or after 1 October 1989, and have not been paid by the customer then a business can apply bad debt relief.

The process of claiming of bad debt has been changed, and new rules apply.

<http://www.hmrc.gov.uk/vat/managing/reclaiming/bad-debts.htm>

When using the Cash Accounting scheme, VAT is only paid on amounts actually received, so Bad Debt relief does not apply.

Bad Debt relief can only be applied at least 6 months from the later of when payment was due/payable or the date of supply. After this time limit has passed, a claim can be made on the return for the NEXT accounting period.

Any refunds are claimed through BOX 4 of the VAT return.

When claiming a refund the following records must be kept: -

- A copy of the VAT invoice on which bad debt is being claimed.
- A bad debt account showing
 - Bad debt written off
 - Amount of VAT reclaimed
 - VAT period of the reclaim
 - Total VAT charged on each supply
 - Original VAT period
 - Any payment received
 - Name of customer – should be on invoice
 - Invoice details
 - Any correspondence/notice issued

Since 31st December 2002 there has been **no** requirement to notify the customer of a reclaim, but if the supplies were made between 26th Nov 1996 and 31st Dec 2002 to a VAT registered customer a letter of notification is still required. This letter must detail, the date of the notice issued, the date for the bad debt relief claim, the VAT invoice details.

It is now the responsibility of the DEBTOR to repay any VAT claimed on supplies that have not been paid for. Any Creditors more than 6 months old in a company's accounts **MUST** be highlighted for VAT repayment.