

VAT Cash Accounting

The basics fundamental to Cash Accounting is that VAT is only charged and claimed on cash actually received and paid.

This means that VAT is only accounted for when a customer pays for the goods, and not when the invoice is raised.

There are restrictions on who can apply for Cash Accounting.

Businesses can use the scheme if the value of taxable turnover (excluding VAT) is no greater than £1.35m (new threshold from 1st April 2007).

There is no requirement to apply for Cash Accounting, but once applied, Cash accounting rules must be adhered to. [Pitfalls of Cash Accounting](#)

In addition Cash Accounting cannot be used where: -

- All the VAT returns have not been sent.
- There is a conviction or proceedings ongoing for a VAT offence in the last 12months.
- The person responsible for VAT has a civil penalty for dishonesty.
- The business owes Customs and Excise money.
- The business has been withdrawn or excluded from the scheme in the previous 12months.

A business must leave the Cash Accounting scheme once the taxable turnover exceeds £1.6m.

When leaving the scheme, there is a 6 month period where previous Cash Accounting invoices (sales and purchases) can continue to be accounted for as Cash accounting, whilst operating invoice accounting for all newly issued or received invoices.

Care must be taken to ensure that payments and invoices match, and a suitable record keeping system must be applied to ensure this. Where actual cash is used for payments, this must also be made clear on the face of the invoice.

There are some items that must be excluded from Cash Accounting, including Lease purchase, imports, delayed payment invoices and invoices issued in advance of supply.

Cash Accounting can be applied to the Flat Rate Scheme up to a turnover £150,000.

Under standard VAT accounting the sales and purchase tax accounts will clear to zero at the end of a VAT quarter. To reconcile under cash accounting the balance on the sales tax account should be the VAT outstanding on debtors and on the purchase tax account should be the VAT due on creditors.