

VAT

Invoice Accounting - The Basic Principles

A business can apply cash accounting rules as long as their turnover does not exceed £1.35m (April 2007). Once their turnover exceeds £1.6m they must use invoice accounting rules as they are not allowed to account for VAT under the [Cash Accounting](#) or [Annual Accounting](#) schemes

There is no set way to keep business accounts but an example of a VAT account is included in [Notice 700/21](#)

Output tax is the tax charged on the supply of goods or services on your sales invoices.

Input tax is the tax reclaimable on the purchase of goods or services.

Invoiced based accounting means that the VAT is accounted for at the time when a supply of goods or services is treated as taking place, which is called the tax point. There are 2 tax points

Basic Tax Point
Actual Tax Point

Tax is accounted for in the tax period in which the tax point has occurred.

Basic Tax Point

Where goods have been sent to a customer or made available to them. In the case of services it is when the service is performed, and is normally the date when all the work is completed except the invoicing

The Basic Tax Point is over ridden when a business creates an Actual Tax Point.

Actual Tax Point

Where the business has either issued an invoice or received a payment BEFORE the basic tax point, or the business issues an invoice up to 14 days after the basic tax point, the new date then becomes the tax point

A tax point cannot be created simply by printing off an invoice; it must be delivered to the customer.

In many cases deposits are made to secure orders, and should be treated as advance payments, and accounted for VAT according to the invoice rules. Deposits given for the hire of equipment as other similar deposits that are fully refundable are not covered by this system, and are not counted.

Where there is a continuous supply of materials or services, then the tax point is when a valid VAT invoice is issued or payment is received, whichever happens first.

Items that are sold on a sale or return basis are still the property of the supplier until the option to buy has been agreed. Once the vendor decides to buy or adopt the goods, then the date that occurs becomes the tax point.

Invoice accounting must never be confused with [Cash Accounting](#) the two systems are not interchangeable and should not be mixed.