

SPECIAL VAT SCHEMES

As in Ireland, there are a number of VAT simplification schemes for businesses with turnovers below a certain amount.

Annual Accounting

Smaller businesses may be able to avail of annual accounting. Under the annual accounting scheme, VAT can be paid by monthly or quarterly instalments during the year based on an estimate of total VAT liability at the end of the year. There is a single annual return and a balancing adjustment. This involves a single VAT return.

VAT payments must still be made regularly. Payments on account are required at the end of months four to twelve. Each must represent 10% of the VAT liability for the previous year. A new business must base its payments on an estimate of the VAT liability for the year. A balancing payment or repayment is made when the return is filed.

The annual return is to be made within two months of the end of the annual return period. The annual accounting scheme is available provided taxable turnover does not exceed £1,350,000. VAT returns must be up to date.

Cash Received Basis

The normal position with VAT is that it is due upon invoice rather than upon receipt of the cash. Therefore VAT will normally be payable once the goods or services are supplied even though payment is delayed. It may be possible to reclaim VAT if a debt becomes bad.

Under the cash accounting scheme VAT is accounted for on the basis of cash receipts on payments rather than on the basis of invoice dates and accruals. The tax point

becomes the date of receipt or payment. The scheme is available under certain conditions. It is necessary to apply and procure Revenue approval to use the cash accounting scheme.

The scheme is only available at smaller businesses. Trader's VAT returns must be up to date and he must have no convictions for VAT offences. Taxable turnover must not exceed £660,000 per annum. A trader must leave the scheme once the taxable turnover exceeds £825,000 per annum. The cash accounting scheme cannot be used for goods that are invoiced more than six months in advance of the payment date or where an invoice has been issued prior to the sale actually taking place.

Flat Rate Scheme

The flat rate VAT accounting scheme is designed to help small businesses simplify calculation of VAT.

Where the scheme applies, a business calculates VAT liabilities by simply applying a flat rate percentage to the entire turnover. This removes the need to calculate and record output VAT and input VAT. The flat rate percentage is applied to the gross i.e. VAT inclusive total turnover figure with no input VAT being recovered. The percentage varies in accordance with the type of trade and the business involved in. VAT at the rate of 15 is still charged and the standard rate applies and a VAT invoice must still be issued.

In order to qualify for the scheme the expected turnover, excluding VAT for the next 12 months must not exceed £150,000. The expected total income for the next 12 months must not exceed £187,500.

Under the scheme, percentages are set according to the trade sector. It is not possible to reclaim VAT as this is taken into consideration as part of the percentage calculation. The benefit of the scheme is that it reduces the time spent on accounting for VAT because it is not necessary to record VAT charge on each individual purchase and sale. The scheme is available if turnover (excluding VAT) is less than £150,000 or less.

Retails Schemes

Retailers that sell directly to the public will find it difficult to issue a VAT receipt for each sale. There are several retail schemes available to assist. The schemes provide an alternative to standard VAT accounting. VAT invoices are not required unless they are specifically requested.

This Guide is intended as an overview and broad outline of the matters covered in it. Its purpose is to inform and raise awareness. We are happy to offer specific legal advice on particular circumstances.

This Guide should not be relied on as a substitute for comprehensive legal advice with reference to the particular circumstances.

While we have taken due care in the preparation of this publication, we do not accept legal liability as a result of any reliance placed on anything in this Guide. The reader should rely only on specific legal or taxation advice.