

The vast majority of businesses use the standard accruals VAT system, which in simple terms, mean that a business will pay VAT to HMRC on invoices raised that have not yet been paid by the business' clients.

Inevitably, particularly in a period of economic downturn, a business will incur bad debts.

In cases such as this bad debt relief allows businesses that have made supplies on which they have accounted for and paid VAT but for which they have not received payment to claim a refund of the VAT by reference to the outstanding amount.

The Conditions for Relief

In order to make a claim a business must satisfy the following conditions:

- goods and services have been supplied and the VAT in question has been accounted for and paid
- six months has elapsed since the date of supply and/or the due date for payment, whichever is the later
- all or part of the outstanding amount must have been written off in the accounting records as a bad debt (in the 'refunds for bad debts account').

Making the Claim

A claim is made by entering the appropriate amount in Box 4 of the VAT return for the period in which entitlement to the claim arises (or any permissible later period).

Records

Businesses making bad debt relief claims must keep records for four years from the date of the claim to show:

- the time and nature of supply, purchaser and consideration - normally a VAT invoice will show this information
- the amount of VAT and the accounting period it was paid to HMRC
- any payment received for the supply
- details of entries in the 'refunds for bad debts account'.

Repayment of Input Tax by Purchaser

Where a customer has not paid a supplier within six months of the date of the supply or, if later, the date payment is due, VAT previously claimed as input tax, must be repaid. This puts a burden on all VAT registered traders to monitor their transactions to anticipate whether they need to reverse any input tax recovered on goods received from suppliers.

How abacus can help

abacus can help you in the first instance to put controls in place to ensure bad debts are kept to a minimum and if a bad debt does occur we will ensure you recover the VAT at the earliest convenience.

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