

VAT 107 – CASH ACCOUNTING METHOD

What is the cash accounting method?

This method allows you to account for VAT on the basis of payments you receive and make, rather than on the VAT invoices you issue and receive.

How does the method work?

There are two methods of accounting, the invoice method and the cash method. The invoice method is a default method that every VAT vendor is expected to use, unless otherwise permitted to use the cash method. The invoice method is usually referred to as the normal accounting method. The amount of VAT payable in a tax period under the normal accounting method is the total amount of VAT you have charged your customers on your tax invoices, less the amount of VAT you may claim as input tax. Under the cash accounting method, you will still have to issue and keep VAT invoices, but the amount of VAT payable will be the total amount of VAT included in payments you have received from your customers, less the total amount of input tax included in payments you have made. If you pay or are paid partly in kind, you must still account for VAT each time you make or receive a payment, whether in cash or in kind. The method does not affect the rules for working out the time of supply (see leaflet VAT102).

Who can use the method?

You can use the method if

- all your VAT returns are up to date
- you have no arrears of VAT, or you have made arrangements with the Debt Management Section in the Revenue Compliance Division to clear these arrears
- you have not had an earlier cash accounting method withdrawn
- you have not been involved in Sales Tax or VAT evasion
- 90% of your supplies constitute services or supplies to Government (included to cater for known payments delays made by Government)

Will I benefit from using the method?

• *The main advantages of the method are:*

- if you provide, or have to give, extended credit to customers, you will only have to account for VAT on the payments you receive.
- you will have automatic bad debt relief. If you are not paid by a customer, you do not have to account for the VAT on that supply.

These are major benefits, particularly if you are a small business. But you should bear in mind that if the amount of credit you claim is more than the VAT you pay, you may find it better not to use the method.

If you are usually paid as soon as you make a sale, you will normally not benefit from/qualify for the method. You will be accounting for the VAT on the basis of payments you receive, but you will lose the advantage of claiming a credit on your purchases as soon as they are invoiced to you.

Are there any conditions?

Yes; you must apply for the method in writing to the Commissioner of Taxpayer Services, and after approval in writing by the said Commissioner:

- use it for the whole of your business
- stay in the method for at least two years
- start to use it at the beginning of a tax period- meet the record-keeping requirements set out below

When you are permitted to use the method, you must identify and separate in your records any payments you make or receive from transactions already accounted for under the normal method. You must exclude payments received for supplies made before you start to use the method from your method records to avoid accounting for VAT twice. If you start to use the method from the date of your registration for VAT, you must not account for VAT on any payments you received for supplies made before that date, as those were not taxable supplies.

What records must I keep?

All the normal requirements set out in leaflet VAT104 regarding copies of VAT invoices and evidence of input tax apply.

You will also need to keep:

- a cash book summarising all payments made and received, with a separate column for VAT

- any other records that will satisfy the LRA that the payments you receive and make can be easily linked to your records for the transaction.

If you make a payment in cash, you must ensure that your VAT invoice is properly receipted and dated. If you receive a payment in cash, you must, if asked, issue a receipted and dated VAT invoice and keep a copy of it. These form part of your VAT records and you must keep them for at least six years.

How do I account for VAT?

You must account for VAT in the month in which you pay for a supply, but you must have a proper VAT invoice. For clarity on dates, you receive **cash** on the date you receive the money; you pay on the date you receive a VAT invoice; you receive a **cheque** on the date you receive the **cheque** and you pay on the date you send the **cheque**, whichever is the later. And you receive the payment by **credit card** on the date you make out the sales voucher, not the date you receive payment from the card company. If you take a deposit, you must account for VAT when you receive the deposit; if you pay a deposit which serves as an advance payment, you can claim a credit for the VAT when you make the payment.

Do I have to apply to use the method?

Yes; you must apply, in writing, to the Commissioner Taxpayer Services. You are responsible for making sure that you comply with the conditions set out in this leaflet.

What if I want to leave the method?

You must normally stay in the method for two years, unless the permission to use it is withdrawn by the Commissioner before that period. After the two years, you can return to the normal method of accounting for VAT, with notification to the LRA Commissioner of Taxpayer Services.

Remember, the method is designed to help you, but you must meet certain legal requirements. When you fill in your VAT return, you account for the VAT due and any credits on the basis of payments received and made not on invoices. The Commissioner of Taxpayer Services has the power to withdraw the use of the method if you have to pay a default surcharge or penalty for a breach of the VAT law or Regulations, or if you abuse the method.

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