



VAT

VAT - Bad Debt Relief

It is quite possible within the VAT system for a business to be in the position of having to pay over VAT to Customs & Excise while not having received payment from their customer.

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 later of the date of supply and the due date for consideration
- 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
- the amount of VAT and the accounting period it was paid to Customs
- any payment received for the supply
- details of entries in the 'refunds for bad debts account'.

Repayment of Input Tax by Purchaser

Under earlier regulations, a business was required to write to their debtor customer within seven days advising them that a claim for VAT bad debt relief had been made. This is no longer required.

As a quid pro quo for this, 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. Previously, input tax only needed to be repaid following receipt of a notice from the supplier who was claiming bad debt relief. This now 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 We Can Help

We would be pleased to help with further advice in this area.