

Bad debt relief with VAT Flat Rate Scheme (FRS)

Businesses using the FRS for VAT fail to take advantage of claiming VAT on bad debt after 6 months from when the output VAT was reported.

What is bad debt relief?

When a customer is invoiced and a sale takes place for taxation purposes, the element of VAT is reported to the HMRC and paid across. However, the customer may have not paid for the goods or services, but you have paid for the VAT for the sale. If, the customer fails to make full payment for the good or services that is then known as a 'bad debt' for financial accounting purposes. As a result, the VAT you have paid to the HMRC can be claimed back.

Bad debt and the impact on FRS

Firstly, what is the FRS:-

Flat rate scheme is the reduced rate of VAT a business pays to the HMRC on sales.

Depending on your business and sector it operates in the HMRC have pre agreed reduced rates.

FRS in numbers: -

Estate Agent Ltd – FRS @ 15%

VAT period: 31/03/2020

Quarterly Sales: £30,000.00

VAT payable: £4,500.00

Bad debt relief & FRS

£5,000.00 of the £30,000.00 invoices in the above example was not paid by the client. After 6 months, the business can reduce the payable liability as follows:

Estate Agent Ltd – FRS @ 15%

VAT period: 30/09/2020

Quarterly Sales: £30,000

Output VAT: £4,500.00

**Reduction/Adjustment: £5,000.00 @ 15%
= £750.00**

VAT Payable: £3,750.00

VAT

Many individuals and business proprietors may know VAT in its standard form of 20% and paid quarterly.

However, HMRC offer different VAT schemes and different payment frequencies which can impact your cashflow.

It is essential individuals and businesses contact an accountant like **Anantam Accountancy** who can help assess your business and make sure you choose the right VAT scheme. After all, 'cash is king'

In addition to that, different VAT schemes have different impact on financial transactions such as bad debt relief especially if you are using more than one scheme at any given time.

VAT – Overview

Businesses can opt to run more than one scheme so the decision can be very complex and require careful planning. Contact **Anantam Accountancy** today.