



VAT Bad Debt Relief

Under the normal rules of VAT, a supplier has to account for output tax even if the supply has not been paid for. VAT cannot be reclaimed by issuing a credit note for the unpaid amount.

Please note: The use of cash accounting or certain retail schemes removes the problem of VAT on bad debts from the supplier.

Conditions for bad debt relief

The supplier must have supplied goods or services for a consideration in money, and must have accounted for and paid VAT on the supply.

All or part of the consideration must have been written off as a bad debt by making the appropriate entry in the *refunds for bad debts account*.

At least six months (but not more than three years and six months) must have elapsed since the *later* of the date of supply or the due date for payment.

Records required

Various records and evidence must be kept (for four years from the date of claim), in particular to identify:

- The time and nature of the supply, the purchaser, and the consideration
- The amount of VAT chargeable on the supply
- The accounting period when this VAT was accounted for and paid to HM Revenue & Customs
- Any payment received for the supply
- The information contained in the notice to the customer (see above)
- Entries in the refund for bad debts account

E-mail: help@clarkhowes.com
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- The accounting period in which the claim is made



Procedure for claiming relief

The claim is made by including the amount of the refund in Box 4 of the VAT Return (Form 100) for the period in which the debt becomes over six months old.

There are special rules for part-payments and mutual supplies.

Repayment of refund

Repayment of VAT refunded is required where payment is subsequently received or where the conditions have not been complied with.

A refund does not have to be repaid if the supplier is insured for the VAT inclusive amount of the debt and is repaid by the insurer.

Refund of input tax by debtor

Businesses are required to monitor the time they take to pay their suppliers, and repay input tax claimed if they have not paid within six months.

Subsequent payment of all or part of the debt will allow a corresponding reclaim of input tax.

Please call us if you would like further help or advice in this area.

