

# 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 HMRC 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, 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
- 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 we can help

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

