COVID-19: VAT payments

Deferral of VAT payments and optimising VAT cash flow

The UK government has announced that there will be a deferral of VAT payments falling due between 20 March and 30 June 2020. This is part of a package of measures to support businesses during the Coronavirus pandemic.

The deferral will apply automatically to UK businesses and no application is required.

For businesses on quarterly VAT returns, this will generally mean the deferral of one quarter's VAT:
- the payment due on 7 April for businesses with a VAT period ending February 2020;
- the payment due on 7 May for businesses with a VAT period ending March 2020; and
- the payment due on 7 June for businesses with a VAT period ending April 2020.

For businesses on monthly VAT returns, the payments due for the February 2020, March 2020 and April 2020 VAT returns will be deferred. For payments on account traders, any payments due before 30 June 2020 will be deferred.

In all cases, VAT returns must still be filed on time as normal. HMRC have said that VAT refunds and reclaims will continue to be paid as usual in this period.

Businesses will be given until 31 March 2021 to pay any VAT liabilities accumulated during the deferral period.

The deferral applies only to UK businesses, and so non-UK businesses with a UK VAT registration will need to pay their VAT on time as normal.

Other points relating to the VAT deferral

- **direct debits –** HMRC have advised that taxpayers who normally pay by direct debit should cancel their direct debit with their bank, as otherwise HMRC will automatically collect the amount declared on their VAT return;
- **interest –** no interest or penalties will be due on deferred VAT

payments provided they are paid by 31 March 2021;

- **import VAT –** We understand from HMRC that import VAT arising on the import of goods into the UK from outside the EU during the deferral period will need to be paid as normal; and
- **disclosures to HMRC –** If a taxpayer makes a disclosure to HMRC during the deferral period (for example, relating to under-declared VAT in previous periods), we understand from HMRC that this would not qualify for the deferral – although these disclosures are likely to take some months to process in any event.

Other VAT measures businesses could take to assist cash-flow

Given that normal VAT rules apply to quarterly periods commencing 1 March, 1 April and 1 May, businesses should consider these further measures now.

1. Time to Pay

At Budget 2020, the Chancellor announced that HMRC had set up a dedicated COVID-19 helpline to assist businesses in financial distress with outstanding tax liabilities. Taxpayers should call this service to agree a bespoke 'Time to Pay' arrangement with HMRC. This can include agreeing an instalment arrangement, suspending debt collection proceedings, and cancelling penalties and interest if a business has difficulties paying HMRC immediately. These arrangements are agreed on a case-by-case basis and are tailored to individual circumstances and liabilities.

This helpline may assist if a business has missed previous VAT payments, is making a disclosure for historic periods, or is still struggling to pay after the deferral period. HMRC are looking more favourably at 'Time to Pay' requests than they would do normally.

2. Monthly VAT returns

There may be an advantage in switching to monthly VAT returns where your business regularly receives repayments of VAT from HMRC. This means you would receive a repayment every month or so, rather than having to wait three months. This is often of benefit to exporters or other businesses that make a significant proportion of zero-rated supplies.

You can make an application to HMRC to switch to monthly VAT returns.

3. VAT bad debt relief

This relief may be claimed if a payment on which VAT was charged has been outstanding for more than six months, and the debt is written off in your accounting records as a bad debt. The VAT paid to HMRC may be reclaimed on your next VAT return.

A claim must be made within 4 years and six months of when the payment was due and payable (or the date of the supply, if later).

Businesses should consider whether there any historic bad debts they could claim for, with a view to including these on their first VAT return not covered by the deferral period.

4. Paying purchase invoices net of VAT

Some businesses have asked their suppliers whether they can pay any invoices net of VAT, on the basis the suppliers should benefit from the deferral of their liability to pay the VAT to HMRC. Under this arrangement, the customer would typically agree to pay the supplier the VAT in the future before the VAT is actually due to HMRC. This could amount to a significant cash-flow advantage for the customer (but would equally remove the cash-flow advantage of the deferral for the supplier).

Care must be taken here, as the customer's entitlement to recover the input VAT may be dis-applied where the payment remains outstanding for more than six months.

5. Cash accounting scheme

If your business' annual taxable turnover is £1,350,000 or less, you may be eligible to join the VAT cash accounting scheme. Under this scheme, you account for VAT on your sales on the basis of payments you receive, rather than VAT invoices you issue. This is different from the normal rules that require you to account for VAT when you issue a VAT invoice, even if your customer has not paid.

However, if you choose to use the scheme, you can only reclaim the VAT incurred on purchases once you pay your supplier.

The scheme could be helpful if you give your customers extended credit or suffer a lot of bad debts.

If eligible, you may use the scheme from the start of your next VAT period without having to make an application to HMRC. You can leave the scheme in the future from the end of a VAT period if you would prefer to revert to normal VAT accounting.

6. EU VAT refund claims

Where VAT is incurred by a business in another EU country where it does not have a VAT registration, claims for refunds may be submitted to HMRC (which will be passed to the tax authorities of the relevant EU country). These must be made by 30 September of the year following the calendar year in which the VAT is incurred. Many businesses make annual claims and delay making them until close to the deadline.

Businesses should now consider making earlier claims, and making claims for three month periods rather than a whole year. A claim for January to March 2020 could be made in April 2020. Subject to the time taken to process the applications, this could bring forward payments by around 18 months compared to waiting until near the deadline.

7. Pay by direct debit

Once the deferral period is over, paying VAT payments to HMRC by direct debit can give a small cash-flow boost. Payment is taken by direct debit three working days after the normal deadline for payment (which is normally one month and seven days after the end of the VAT period).

8. Deferring import VAT

Import VAT due on goods imported from outside the EU is not deferred under the COVID-19 VAT deferral. However, if you import regularly you should consider applying for a duty deferment account, which enables you to defer paying your import VAT and customs duty until the 15th day of the month after the import occurs. You will need to give a financial guarantee to cover your deferred liabilities, but you may be able to reduce the guarantee given for VAT under Simplified Import VAT Accounting (SIVA) arrangements.

Key contacts

For more information or assistance in this area, please feel free to contact a member of our specialist VAT and indirect tax team.

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