

Using VAT to your advantage

When amalgamated, indirect tax cash flows can exceed 30 percent of turnover. Effective management of these cash flows not only demonstrates efficient stewardship but can also yield real funding benefits.

For the majority of taxpaying companies, VAT is a positive contributor to cash flow. VAT charged on sales is usually accounted for on a quarterly (90 day) cycle. A further 37 days are provided to submit the return and make payment to HMRC by Bankers Automated Clearing System (BACS). Therefore, where sales occur evenly, the average retention period is 82 days. A retailer making cash sales therefore, or a company whose debtor period (measured by Days Sales Outstanding) is less than 82 days, are realising a positive cash flow by collecting VAT from customers that is retained until payment at the end of the return period.

Detailed rules on when VAT is due for payment or when input tax can be recovered provide for a flexibility that can make a positive cash flow improvement. In overview, consideration should be given to deferring the payments to HMRC (Example 1), accelerating the recovery of input tax, the timing of significant one off transactions and the international tax dimension.

Example 1

For a seasonal business, it is possible that by simply changing the 'stagger period' when returns fall due (i.e. January, April, July and October), the taxpayer can retain more VAT for longer. For instance, a retailer with significant Christmas (December sales) could move the quarter end from December to February which would allow the business to retain the VAT received on Christmas sales by an extra two months.

In other businesses, the tax point rules, discounts, deposits received, commercial terms and VAT grouping (Example 2), can all either defer the payment of VAT or accelerate a VAT credit. The timing of taxable land sales can also provide an opportunity to beneficially increase funding. Completion just after the commencement of a return period can often enable the taxpayer to retain a significant sum for nearly four months, interest free.

Example 2

In a group where one company makes, for instance, standard rated advertising supplies, and the other company makes, for instance, zero rated newspaper supplies, it can be beneficial to not have a group VAT registration, and instead make quarterly VAT returns for the standard rated (advertising) business and monthly returns for the zero rated (newspaper) business. The benefit is that input VAT relating to the newspaper business would be recovered up to two months earlier.

More detailed opportunities are outside the scope of this brief article, however, a detailed review by 4 Eyes Ltd will identify and value the cash flow benefits that your business could realise.