

VAT support during the crisis

(Lecture B1194 – 14.06 minutes)

VAT payments deferred until end of June

The Chancellor announced a three-month VAT payment deferral on 20 March to support businesses during the coronavirus crisis. All businesses that are registered for VAT have the option to defer all VAT payments due to HMRC between 20 March and 30 June. Businesses will have until 31 March 2021 to pay any VAT deferred. The first period the concession applied to was the February 2020 return, payable by 7 April 2020. It will also extend to March and April returns. There will be no interest or default surcharges on the deferred payments. The deferral also applies to payments on account for larger businesses. However, cash flow must be closely monitored in anticipation of the March 2021 settlement date.

Note - Businesses do not need to inform HMRC if they wish to defer payment. They can opt in to the deferral by not making VAT payments due in this period. All VAT returns must still be submitted on time.

Direct debits. HMRC has confirmed that if you normally pay VAT by direct debit you should cancel your direct debit mandate with your bank if you are unable to pay. This must be done in advance of the payment date to ensure that HMRC does not attempt to automatically collect it when it receives your VAT return.

Annual accounting scheme. The deferral period also applies to monthly or quarterly payments on account with the annual accounting scheme. The scheme payments are based on the previous year's VAT liability.

Payments on account

There are two main situations when a business will make VAT payments on account, rather than settle its liability on a monthly or quarterly return ie the annual accounting scheme and the payments on account scheme for large payers.

The large payer scheme applies to any business with annual VAT payments that exceeded £2.3m in a specified 12-month period. The 12-month period depends on the VAT quarters of the business eg for a business on calendar quarter VAT returns, it is based on total VAT payments made to 30 September each year. Payments on account are made in months two and three of a VAT period, with the balance due in the normal way ie one month plus seven days after the end of the period. There are two important cash flow saving tips for large payers:

1. The VAT payment holiday period until 30 June also applies to payments on account with the large payer scheme;
2. If a business thinks that the payments are too high because of a lower expectation of sales this year due to the coronavirus problems, it can apply to HMRC to have the payments reduced, ie to help cash flow.

See <https://www.gov.uk/guidance/vat-payments-on-account>

The same comments apply to the annual accounting scheme concerning the holiday payment period and also the opportunity to reduce monthly or quarterly payments on account with the scheme that are based on the previous year's VAT liability.

Paying VAT by direct debit

Since 1 April 2012, businesses have been required to pay their VAT electronically, earning an extra seven days grace compared to the old days of sending a cheque in the post to HMRC's office in Southend.

This means that the payment date for the December 2019 return was 7 February 2020.

However, a further delay of three working days can be earned if payments are made by direct debit. And if the days between the 7th and 10th of the payment month include Saturdays or Sundays, then these days are ignored, so a potential extension to five calendar days compared to other payment methods.

Payment Support Service (PSS)

When cash is in short supply, many businesses will be faced with the decision as to whether they pay their suppliers on time (to keep the flow of goods coming into the business) or the quarterly VAT return. The PSS used to be called the BPSS with the 'B' standing for 'business' but changed its name quite recently. The challenge is to contact the PSS before the due payment date for the VAT return in question because an agreed time-to-pay deal will avoid any potential default surcharges being levied if the business complies with the agreed terms.

At the time of writing, the current opening hours are Monday to Friday 8am to 4pm – telephone number 0300-200-3835.

The website link advises taxpayers to 'call the PSS if you cannot pay in full before your payment deadline.' Practical tips are as follows:

- Try and pay some of the VAT liability on time ie showing a genuine commitment to pay and then asking for the balance to be paid through an extended agreement;
- Be aware that a condition of a time to pay agreement will almost certainly be that all future returns and payments must be made on time. The PSS facility is a temporary option to help a cash flow problem.

Contributed by Neil Warren