

Protecting cash flow

Using VAT savings to manage cash flow

March 2020

COVID-19 is impacting all of our day to day lives, and our thoughts remain with everyone affected. As businesses look to protect their employees, customers and communities during COVID-19, we understand that a major challenge will be managing cash flow. To help alleviate cash flow pressures there are a number of VAT related options available, which can secure much needed VAT repayments and/or cash flow benefits.

Time to pay with HMRC

In the 2020 Budget, it was announced that HMRC would make time to pay (TTP) arrangements more widely available in light of COVID-19. Whilst it is not immediately clear how accessible these will be applied in practice, under TTP arrangements HMRC will consider:

- agreeing payment plans for tax liabilities;
- temporarily suspending debt collection proceedings; and
- cancelling penalties and interest where there are administrative difficulties contacting or paying HMRC immediately.

HMRC have a dedicated helpline (0800 0159 559 or for large businesses 0300 322 7818) for taxpayers to explore TTP arrangements during COVID-19.

VAT reclaims

There are a number of areas where businesses commonly over pay or under recover VAT, which can be reclaimed from HMRC. These VAT reclaims can generate a cash windfall and ongoing cash savings.

VAT reclaims can be submitted to HMRC over the previous four years and typically fall into the following three categories:

- **Overpaid VAT on sales** – businesses commonly overpay VAT on products that may fall within the zero rate, or where the place of supply is outside the UK.

- **Under recovered VAT on expenses** – VAT recovery is often missed on costs such as employee expenses and other transactions that fall outside the standard accounting process.
- **Unusual VAT transactions** – VAT is frequently overpaid on a number of non-standard transactions. Some examples include the VAT treatment of gift cards and vouchers, as well as the operation of loyalty schemes and goodwill payments.

Opportunities can be identified and converted into claims on a remote basis.

Maximising cash flow through VAT

Better management of VAT cash flows can increase working capital by 5%-20% of VAT throughput. As VAT is often the third largest flow after sales and cost of sales, releasing up to a fifth of VAT can have a dramatic impact.

Simple changes, such as changing your VAT reporting schedule, reviewing payments on accounts liabilities, or adjusting your VAT accrual process can maximise cash efficiency in your VAT process.

If you have not reviewed the impact of VAT on your working capital, it is a good place to start to release cash.

Wider COVID-19 support

KPMG has a wide team of experts that can help with all aspects of business continuity during COVID-19. We will be hosting a number of webinars to discuss immediate, medium and long term actions that can help you manage the challenges ahead. Further up to date information is also available at home.kpmg/uk/covid19.

KPMG contacts

If you would like to discuss any of the information in this flyer, please speak to your usual KPMG contact or reach out to one of the VAT specialists listed.



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