



HM CUSTOMS AND EXCISE
<http://www.hmce.gov.uk>

Notice 700/21

Keeping records and accounts

March 2002 - Includes update 1 at the end of this document

This notice cancels and replaces Notice 700/21 (March 1995). Details of any changes to the previous version can be found in paragraph 1.1 of this notice.

Further help and advice

If you need general advice or more copies of Customs and Excise notices, please ring the **National Advice Service** on **0845 010 9000**. You can call between **8.00 am and 8.00 pm, Monday to Friday**.

If you have **hearing difficulties**, please ring the **Textphone** service on **0845 000 0200**.

If you would like to speak to someone in **Welsh**, please ring **0845 010 0300**, between **8.00 am and 6.00 pm, Monday to Friday**.

All calls are charged at the local rate within the UK. Charges may differ for mobile phones.

Other notices on this or related subjects:

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700/64	

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1. Introduction

1.1 What is this notice about?

This notice explains what records, relating to the supplies you make or receive, you need to keep for VAT purposes. It also provides advice on how best to keep these records.

This notice also explains about:

- VAT invoices; and
- tax points.

You can find further information about the types of supplies you may be making or receiving, and when you should charge VAT and when you can reclaim it, in Notice 700/15 *The Ins and Outs of VAT*.

Remember, you may face a financial penalty if you fail to keep proper VAT records.

This notice has been restructured to improve readability.

Paragraph 2.3 shows the changes to the limit for the cash accounting scheme.

Paragraph 5.4 gives additional guidance about keeping records on computer which did not appear in the previous edition.

Paragraph 6.3 now includes a reference to road fuel scale charges which did not appear in the previous edition.

This notice and others mentioned are available both on paper and on our Internet site at www.hmce.gov.uk.

2. Requirements for different businesses

2.1 Does everyone have to keep the same records?

If you are registered for VAT you must keep records of all the supplies you make and receive and a summary of VAT for each accounting period covered by your VAT returns.

Everyone has to keep similar records for VAT, but there may be important differences depending on the nature of your business and whether you use one of our special accounting schemes.

2.2 Retail schemes

If you sell direct to the public you may find it difficult to issue an invoice for each sale. There are several schemes available to help you with this. If you use a retail scheme you will not have to issue invoices unless someone asks for one. You can find further information about these schemes and the records you must keep if you use them in Notice 727 *Retail Schemes*.

2.3 Cash accounting scheme

If the value of your taxable supplies, excluding VAT, is not more than £600,000 you may benefit from using this scheme. Cash Accounting allows you to account for VAT on the basis of payments you receive and make, rather than on invoices you issue and receive. You can find further information about this scheme and the records you must keep if you use it, in Notice 731 *Cash Accounting*.

2.4 Second hand schemes

Special records are required if you use one of the VAT second-hand schemes. You can find further information in Notice 718 *Margin Schemes for second-hand goods, works of art, antiques and collectors' items*.

2.5 Trade with other European Community (EC) Member States

You can find further information on the records and accounts you must keep if you make supplies to businesses in other EC states in Notice 725 *The Single Market*.

2.6 Intrastat

The record keeping rules for Intrastat and VAT are broadly similar. You can find further information about Intrastat in Notice 60 *Intrastat General Guide*.

3. VAT invoices

3.1 What is a VAT invoice?

Whenever you supply standard-rated goods or services to another VAT registered person, you must give them a document showing certain information about what you are supplying. This document is called a VAT invoice.

Normally you must issue a VAT invoice within 30 days of the date you make the supply.

3.2 Why are VAT invoices important?

If your customers are registered for VAT they may be able to get back as input tax the VAT you have charged them. But they can only do so if they have a VAT invoice from you.

In the same way, you can only get back VAT you have been charged by your suppliers if you have VAT invoices from them.

You must keep:

- all VAT invoices you receive; and
- copies of all VAT invoices you issue.

Only VAT registered businesses can issue VAT invoices.

You should have no problem finding out from your suppliers whether they are VAT registered. However if you do experience particular difficulties you should contact our National Advice Service.

3.3 What details must I include on a VAT invoice?

You must show, on any VAT invoices you issue:

- an identifying number;
- your name, address and VAT registration number;
- time of supply;
- date of issue (if different from time of supply);
- your customer's name (or trading name) and address;
- type of supply (e.g. sale or rental); and
- a description identifying the goods or services you are supplying.

For each description of the goods and services you must show the:

- quantity of goods or extent of the services;
- charge made, excluding VAT;
- rate of VAT;
- total charge made, excluding VAT;
- each rate of VAT charged with the amount charged at each rate and shown in sterling;
- rate of any cash discount offered;
- total amount of VAT charged shown in sterling.

You can find an example of how you may set out a VAT invoice in section 7.

3.4 Are these details always necessary?

If you mainly sell direct to the public you do not need to issue a VAT invoice unless your customer asks for one. But if you are asked for one, and the supply including VAT is worth £100 or less, you can issue a less detailed VAT invoice showing only:

- your name, address and VAT registration number;
- time of supply;
- a description identifying the goods or services supplied;
- charge made including VAT; and

- rate of VAT.

You do not have to keep copies of any less detailed VAT invoices you issue.

You will find more about less detailed VAT invoices in Notice 700 *The VAT Guide*.

3.5 What if I am paid in cash?

You must, if asked, clearly show on the VAT invoice that payment has been received and the date of receipt.

3.6 What if I cancel or spoil a serially numbered sales invoice?

Don't destroy it. You should keep it in sequence so that our officer can look at it on their next visit.

3.7 What if I record details of sales invoices on receipt of payment?

You:

- cannot use this record to work out your output tax;
- must record details of your sales invoices in the order that you issue them unless you have already accounted for the VAT; and
- must account for the tax on all the invoices you issue in an accounting period, on the VAT return covering that period - even if you have not been paid by your customer (see section 4 about tax points).

Different rules apply if you use the cash accounting scheme. You can find further information in Notice 731 *Cash Accounting*.

3.8 Till rolls

If you buy goods from a cash and carry wholesaler for example, and they give you a till roll which identifies the goods only by their product code number, you can use this as a VAT invoice.

But the till roll must show the other details needed on a VAT invoice and you must have an up-to-date copy of the wholesaler's product code list.

3.9 Can I issue invoices to my customers in a foreign currency?

Yes, but you must convert both the value and the VAT into sterling on the VAT invoice.

You can find further information on foreign currency invoicing in Notice 700 *The VAT Guide*.

3.10 Pro-forma invoices

A pro-forma invoice is not regarded as a VAT invoice.

You can only reclaim VAT on your return if you have a proper VAT invoice. If your supplier does not send you a proper VAT invoice you should ask for one.

3.11 Lost invoices

If you lose an invoice you should ask your supplier to provide you with a duplicate. This must be clearly marked by the supplier as a duplicate - it is not enough just to get a photocopy. A statement is also insufficient to reclaim VAT on your return.

4. Tax Points

4.1 What does tax point mean?

The tax point is the time when a supply of goods or services is treated as taking place.

You must account for VAT in the accounting period in which the tax point occurs at the rate in force at that time, unless you use the cash accounting scheme. You can find further information about when to account for VAT if you use the cash accounting scheme in Notice 731 *Cash Accounting*.

This section explains about **basic** and **actual** tax points.

4.2 How do I work out the basic tax point?

The rules for working out tax points for goods and services are much the same, but there are important differences. If you:

- use a retail scheme you **must** follow the rules for the specific scheme you are using, even if they are different from the normal tax point rules;
- supply goods the basic tax point is usually the date you send the goods to your customers or they take the goods away;
- supply goods which are not sent or taken away (for example, if you assemble them on site) the basic tax point is the date you make them available for your customer to use; or
- supply services the basic tax point is usually the date the service is performed (normally the date when all the work except invoicing is completed).

4.3 What is an “actual” tax point?

An actual tax point occurs where the basic tax point is overridden.

If you supply goods and services and issue a VAT invoice up to 14 days after the basic tax point, the tax point then becomes the date you issue the invoice. (To issue a VAT invoice, you must send or give it to your customer. It's not enough simply to have prepared it.)

You don't have to adopt this as a tax point but if you decide not to, you must write and tell your Local Business Advice Centre.

But if you have:

- already issued a VAT invoice (for a part payment); or
- received a payment before the basic tax point;

this will have created a tax point for the amount invoiced or received.

If you issue invoices monthly you may be able to get the 14-day period extended, as an extension would enable you to issue invoices after the end of the month in which you made the supplies.

You will need to apply, in writing, to your local VAT Business Advice Centre giving your reasons. In your application you will need to state whether you want to take the:

- last day of the month; or
- date of issue of the VAT invoice;

as the tax point.

Whichever you decide, if we approve the extension, you must be consistent. You will find further information about actual tax points in Notice 700 *The VAT Guide*.

4.4 Continuous supplies

If you supply services on a continuous basis and receive payments regularly or from time to time, there is a tax point every time you issue a VAT invoice or receive a payment, whichever happens first.

You can find further information about continuous supplies of goods and services in Notice 700 *The VAT Guide*.

4.5 Exceptions

Different rules may apply if you take goods for private use or are involved:

- with the construction industry; or
- in sale or return; or
- in other special situations.

You will find further information in Notice 700 *The VAT Guide*.

5. Sales and purchase records

5.1 What specific records must I keep for VAT?

You must keep a:

- record of all standard-rated goods and services you receive or supply as part of your business;
- separate record of any exempt supplies you make; and
- VAT account. For more information, see section 6.

You will also need to keep a record of all zero-rated goods and services you receive or supply as part of your business.

You don't have to keep these records in any set way. But they must be complete and up to date and the figures that you have used to fill in your VAT return must be easy to find.

Usually your normal business records (see paragraph 5.2) can be quite easily adapted to give this information. If you experience particular difficulties, contact our National Advice Service.

From time to time we will come and see you at your principal place of business. We will give you any help you may need and inspect your business records. You must have your records easily available when we visit. You can find further information in Notice700/26 *Visits by VAT officers*.

You must contact our National Advice Service immediately if your records are lost, stolen or destroyed.

5.2 What do business records include?

Business records include:

- annual accounts, including profit and loss accounts;
- bank statements and paying-in slips;
- cash books and other account books;
- credit or debit notes you issue or receive;
- documentation relating to dispatches/acquisitions of goods to/from EC Member States;
- documents or certificates supporting special VAT treatment such as relief on supplies to visiting forces or zero-rating by certificate;
- import and export documents;
- orders and delivery notes;
- purchase and sales books;
- purchase invoices and copy sales invoices;
- records of daily takings such as till rolls;
- relevant business correspondence; and
- VAT account.

5.3 How long must I keep my records?

You must keep all your business records for at least 6 years.

If the 6-year rule causes you **serious** storage problems or undue expense, you should consult our National Advice Service. We may be able to allow you to keep some of the records for a shorter period.

5.4 What if I keep my records on computer?

If you keep all or part of your records and accounts on a computer, you must make sure that you can meet your legal obligations to:

- account for VAT properly;
- provide information to us when we visit you; and
- keep records in the required detail for the required length of time.

We have agreed a statement of good practice for VAT accounting software with the Business & Accounting Software Developers Association (BASDA).

We cannot recommend any particular package as suitable for your needs.

However, details of packages which have been independently certified as complying with the statement of good practice, are available from:

BASDA
530 Linen Hall
162-168 Regent Street
LONDON W1R 5TB

www.basda.org

or e-mail info@basda.org.

Our National Advice Service will also be able to advise you on how best to meet your VAT requirements if you hold your records on computer.

5.5 How do I record my sales?

If you issue:

- VAT invoices for all your standard-rated sales; and
- invoices showing the same information as your VAT invoices for any other sales you make;

you only need to make a summary of your invoices, as long as you keep copies of them.

Your summary should be in the same order as your copy invoices and show separate totals for:

- VAT on your sales;
- VAT- exclusive values of what you have sold;
- any exempt sales;
- VAT due on certain postal imports and imported services; and
- any credits allowed to your customers.

5.6 What if I don't issue invoices for some supplies?

If you don't issue invoices for your zero-rated sales your records will still need to show **all** the information required for VAT invoices.

If you give any goods away or take any goods from your stock for private use you must record:

- a description of the goods;
- the date you took them from stock;
- the rate and amount of VAT chargeable; and
- the VAT exclusive cost.

If you use a retail scheme, but issue a few VAT invoices you do not have to keep a record of these and account for the output tax separately. You can account for VAT on these sales under the retail scheme you are using.

5.7 What should I do if I issue a credit note?

If you allow a credit to a customer, the VAT shown on the credit note will reduce the amount of VAT you have to pay. You must account for this in the accounting period in which the credit note is issued.

5.8 How do I record my purchases?

Your supplier's VAT invoices will give you all the details you need for VAT purposes. You can make a list of the invoices as you receive them or you may be able to adapt your cashbook to serve as a summary of purchases if you want to deduct input tax as you pay your suppliers.

You may wish to number the invoices and record these numbers against the entries in your summary.

You must show separate totals in your summary for:

- VAT you have been charged on your purchases;

- VAT- exclusive values of your purchases;
- VAT on imports (i.e. from outside the EC); and
- credits received from suppliers.

If you get a lot of invoices from the one supplier or for small purchases you do not have to record each invoice separately. You should keep them in batches and attach summaries showing the totals. You must keep separate batches for each accounting period.

You must keep a separate record of any business purchases on which you cannot deduct input tax, for example cars and business entertainment expenses.

5.9 What should I do if I receive a credit note?

If you receive a credit from a supplier, the VAT shown on the credit note will reduce the amount of tax you can claim. You must account for this in the accounting period in which you receive the credit note.

5.10 How do I record my imports?

You can pay the VAT when you import or remove goods from a warehouse. Alternatively you can defer payment with any duty.

You must have official evidence of the amounts involved - a copy of the import entry, a VAT certificate produced by our computer or a warehouse document - in order to reclaim VAT you pay on imports or removals from a warehouse. You must show the VAT claimed as a separate total in your purchase records.

If you remove goods you have received from another EC Member State, you must account for VAT in respect of that acquisition. You will find further details in Notice *702/9 Warehousing and free zones*.

You must also record the VAT due as a separate total in your **sales** records if you import:

- goods by post - other than by datapost and their value is £2,000 or less; **or**
- any of the services listed in Schedule 5 to the VAT Act 1994. Further information on these services can be found in Notice 700 *The VAT Guide*.

You should not include VAT on any other imports or removals from warehouse in your sales records. You can find further information in Notice *702/9 Warehousing and free zones*.

If you act as a principal in the importation of goods to another EC Member State you should record the import and onward supply of the goods, including EC Sales List, Intrastat and the issuing of a VAT invoice in accordance with the information included in Notice *725 The Single Market*.

You can find general information on imports in Notice *702 Imports*.

6. VAT account

6.1 What is a VAT account?

This is a simple summary of the totals of your output and input tax. The information in your VAT account will help you to complete your VAT return at the end of each accounting period.

6.2 Can I use old VAT returns as a VAT account?

No. You must keep a record separate from your VAT returns.

6.3 How do I keep my VAT account?

There is no set way to keep your VAT account but you can find an example of one in section 8.

You should add up the VAT in your records regularly and transfer the totals to your VAT account under separate headings:

VAT deductible (input tax)	VAT payable (output tax)
<ul style="list-style-type: none"> • acquisitions (see Notice 725 <i>The Single Market</i>) • purchases • imports • adjustments from special schemes • errors in earlier returns • bad debt relief. 	<ul style="list-style-type: none"> • acquisitions (see Notice 725 <i>The Single Market</i>) • sales • certain postal imports and imported services • adjustments from special schemes • errors in earlier returns • self-supplies • road fuel scale charges (see Notice 700/64 <i>Motoring Expenses</i>)

Note, in order to deduct VAT you must have a proper VAT invoice and the purchase must be for your business.

At the end of each accounting period you subtract your input tax from your output tax and record the difference.

6.4 Adjusting your VAT account

You may need to make an adjustment to your VAT account if you:

- allow or receive a credit;
- make a retail scheme annual adjustment;
- are using an approved estimation procedure;
- have to make a partial exemption or capital goods scheme adjustment;
- make a claim for bad debt relief; or
- correct a net error of £2,000 or less made on previous returns. (In other words the net total of all output tax plus input tax errors.)

You should show the input and output tax separately in your VAT account in the adjustment period and include the totals in box 1 or box 4 of your next VAT return.

You cannot correct errors which have a net value of more than £2,000 by adjusting your VAT account, you must report these to your VAT Business Advice Centre. You can find further information about this in Notice 700/45 *How to correct errors and make adjustments or claims*.

6.5 Can I reclaim VAT for purchases I have not yet paid for?

If you are using the cash accounting scheme you can only deduct VAT once you have **paid** the bill.

If you are not using the cash accounting scheme you can deduct the VAT provided you have a VAT invoice which shows a tax point date before the end of the period shown on the return.

6.6 Completing your VAT return

You can use the figures from your VAT account to complete your VAT return. You must send in your VAT return and any payment due by no later than one month after the end of your accounting period.

You can find further information to help you complete your VAT return in Notice 700/12 *Filling in your VAT return*.

7. Example of a VAT invoice

A tax invoice

Sales invoice No. 174

From: FOUNDATION TRADING (UK) LTD VAT Reg. No.987 6543 21
BOWMAN STREET, CHESTER

To: A.N. OTHER LTD
57 NORTH ROAD, LONDON N12 5NA

Sale: Time of supply 16/01/02 Date of Issue: 19/01/02

Quantity	Description and Price	Amount exclusive of VAT	VAT rate	VAT Net
6	RADIOS, SW15 @ £25.20	151.20		
4	RECORD PLAYERS @ £23.60	94.40		
6	LAMPS T77 @ £15.55	<u>93.30</u> 338.90	17½	56.34*
	DELIVERY (STRICTLY NET)	<u>9.00</u>	17½	1.57
Terms: Cash discount of 5% if paid within 30 days		347.90		57.91
VAT		<u>57.91</u>		
TOTAL		405.81		

* calculated on the discounted price

8. Example of a VAT account

A VAT account

Period from 1 January 2001 to 30 March 2001

VAT deductible - Input tax		VAT payable - Output tax	
VAT you have been charged on your purchases	£	VAT you have charged on your sales	£
January	2215.23	January	2780.23
February	1626.47	February	2305.81
March	<u>2792.01</u>	March	<u>3302.45</u>
	6633.71		8388.49
VAT allowable on acquisitions	96.85	VAT due on acquisitions	96.85
Net overclaim of input tax from previous returns	-125.50	Net understatement of output tax on previous returns	719.26
Bad debt relief	<u>96.48</u>	Annual adjustment: Retail Scheme D	<u>91.69</u>
Sub-total	6701.54	Sub-total	9296.29
Less:		Less:	
VAT on credits received from suppliers	<u>-27.50</u>	VAT on credits allowed to customers	<u>-23.00</u>
Total tax deductible	6674.04	Total tax payable	9273.29
		Less total tax deductible	<u>6674.04</u>
		Payable to Customs and Excise	2599.25

REMEMBER – you cannot correct errors on previous returns giving a net under or over declaration of more than £2,000 by adjusting your VAT account.

Do you have any comments?

We would be pleased to receive any comments or suggestions you may have about this notice. Please write to:

**HM Customs and Excise
Accounting and Records Team
4th Floor SW
Queens Dock
Liverpool
L74 4AA**

If you have a complaint or suggestion

If you have a complaint please try to resolve it on the spot with our officer. If you are unable to do so, or have a suggestion about how we can improve our service, you should contact one of our Regional Complaints Units. You will find the telephone number under 'Customs and Excise - complaints and suggestions' in your local telephone book. Ask for a copy of our code of practice 'Complaints and putting things right' (Notice 1000). You will find further information on our website at <http://www.hmce.gov.uk>.

If we are unable to resolve your complaint to your satisfaction you can ask the Adjudicator to look into it. The Adjudicator, whose services are free, is a fair and unbiased referee whose recommendations are independent of Customs and Excise.

You can contact the Adjudicator at:

**The Adjudicator's Office
Haymarket House
28 Haymarket
LONDON
SW1Y 4SP**

**Phone: (020) 7930 2292
Fax: (020) 7930 2298
E-mail: adjudicators@gtnet.gov.uk
Internet: <http://www.adjudicatorsoffice.gov.uk/index.htm>**

Notice 700/21 issued March 2002 Update 1 issued December 2003

This update results from changes to the requirements for VAT invoicing from 1 January 2004. The changes implement the EC Invoicing Directive (2001/115/EC) and were introduced in the UK by a Statutory Instrument which amended the VAT Regulations.

3 VAT invoices

3.3 What details must I include on a VAT invoice?

In 1st list of bullets *delete* 6th bullet point "type of supply...".

Insert "and" after 7th bullet point.

Insert new final bullet point to read:

- "the unit price (see paragraph 16.3.2 of Notice 700 *The VAT Guide*)".

In 2nd list of bullets *delete* 5th bullet point "each rate of VAT....".

Insert "and" after 6th bullet point.

Delete "shown" in 7th bullet point.

3.4 Are these details always necessary?

In first paragraph *delete* "£100" *replace* with "£250"

3.9 Can I issue invoices to my customers in a foreign currency?

In the 1st paragraph *delete* "both the value and the VAT", *replace with* "the total VAT payable".

Paragraph will now read:

"Yes, but you must convert the total VAT payable into sterling on the VAT invoice."

5 Sales and purchase records

5.2 What do business records include?

Delete "and" at end of 12th bullet point.

Delete full stop after last bullet point, replace with "; and".

Insert new final bullet point to read:

- "copies of self-billing agreements (customers in self-billing agreements must also keep the names, addresses and VAT registration numbers of their suppliers)."