



HMRC Change in UK Law for VAT

Prompt Payment VAT Discounts
in Microsoft Dynamics NAV

February, 2015

Overview

HMRC VAT 2015 Changes - Prompt Payment Discounts (PPD)

This change in PPD VAT legislation comes into effect from 1 April 2015 onwards and only affects suppliers who offer and customers who receive (PPD) where an invoice is issued. If you currently use Microsoft Dynamics NAV, this document will detail how to accommodate these changes.

Background

A PPD is an offer by a supplier to their customer of a reduction in the price of goods and/or services supplied if the customer pays promptly; that is, after an invoice has been issued and before full payment is due. For example a business may offer a discount of 5% of the full price if payment is made within 14 days of the date of the invoice.

- **At present:**

Suppliers making PPD offers are permitted to put on their invoice, and account for, the VAT due on the discounted price, even if the full price (i.e. the undiscounted amount) is subsequently paid. Customers receiving PPD offers may only recover as input tax the VAT stated on the invoice.

- **After the change:**

Suppliers must account for VAT on the amount they actually receive and customers may recover the amount of VAT that is actually paid to the supplier.

Changes were made to UK legislation in the Finance Act 2014 in order to protect the revenue, and put it beyond doubt that UK legislation is aligned with EU legislation. The new legislation detailing the changes to PPD was detailed in Paragraph 4 of the Act as right.

The change took effect on 1 May 2014 for supplies of broadcasting and telecommunication services where there was no obligation to provide a VAT invoice. For all other supplies the change takes effect on 1 April 2015.

A consultation took place between 17 June and 9 September 2014 asking businesses for their views and suggestions on how the changes should be implemented. In particular whether issuing credit or debit notes to evidence a change in the consideration would cause them difficulties. The Summary of Consultation Responses was published shortly after Autumn Statement 2014. HMRC accepted that an alternative to issuing credit or debit notes was needed (see guidance).

New Legislation

The revised paragraph 4, Schedule 6, VATA 1994 is set out below:

- 4 (1) Sub-paragraph (2) applies where. (a) goods or services are supplied for a consideration which is a price in money, (b) the terms on which those goods or services are so supplied allow a discount for prompt payment of that price, (c) payment of that price is not made by instalments, and (d) payment of that price is made in accordance with those terms so that the discount is realised in relation to that payment. (2) For the purposes of section 19 (value of supply of goods or services) the consideration is the discounted price paid.

Guidance

Suppliers:

- a) on issuing a VAT invoice, suppliers will enter the invoice into their accounts, and record the VAT on the full price. If offering a PPD suppliers must show the rate of the discount offered on their invoice (Regulation 14 of the VAT Regulations 1995 (SI 1995/2518)).
 - b) the supplier will not know if the discount has been taken-up until they are paid in accordance with the terms of the PPD offer, or the time limit for the PPD expires.
 - c) the supplier will need to decide, before they issue an invoice, which of the processes below they will adopt to adjust their accounts in order to record a reduction in consideration if a discount is taken-up.
 - d) when adjustments take place in a VAT accounting period subsequent to the period in which the supply took place the method of adjustment needs to comply with Regulation 38 of the VAT Regulations 1995 (SI 1995/2518).
 - e) suppliers may issue a credit note to evidence the reduction in consideration. In which case, a copy of the credit note must be retained as proof of that reduction.
 - f) alternatively, if they do not wish to issue a credit note, the invoice must contain the following information (in addition to the normal invoicing requirements):
 - the terms of the PPD (PPD terms must include, but need not be limited to, the time by which the discounted price must be made).
 - a statement that the customer can only recover as input tax the VAT paid to the supplier.

Additionally, it might be helpful for invoices to show:

 - the discounted price
 - the VAT on the discounted price
 - the total amount due if the PPD is taken up.
 - g) if a business has adopted the option at (f), the VAT invoice, containing appropriate wording as described above, together with proof of receipt of the discounted price in accordance with the terms of the PPD offer (e.g. a bank statement) will be required to evidence the reduction in consideration, and the reduction to the supplier's output tax (in accordance with Regulation 38 of the VAT Regulations 1995).
 - h) we recommend businesses use the following wording on the invoice:

"A discount of X% of the full price applies if payment is made within Y days of the invoice date. No credit note will be issued. Following payment you must ensure you have only recovered the VAT actually paid."
 - i) if the discounted price is paid in accordance with the PPD terms, then the supplier must adjust their records to record the output tax on the amount actually received.
- If the full amount is received no adjustment will be necessary.

Customers:

On receiving an invoice offering a PPD a VAT registered customer may recover the VAT charged, in accordance with VAT Regulation 29 of the VAT Regulations 1995.

As adjustments may take place in a VAT accounting period subsequent to the period in which the supply took place the method of adjustment needs to comply with Regulation 38 of the VAT Regulations 1995 (SI 1995/2518).

In practice this will mean:

- a) if the customer pays the full price they record it in their records and no VAT adjustment is necessary.
- b) if the customer pays the discounted price in accordance with the PPD terms on receipt of the invoice they may record the discounted price and VAT on this in their accounts and no subsequent VAT adjustment is necessary.
- c) if the customer does not pay when the invoice is first issued, they must record the full price and VAT in their records as shown on the invoice. If they subsequently decide to take-up the PPD then:
 - if they have received an invoice setting out the PPD terms which states no credit note will be issued they must adjust the VAT in their records when payment is made. They should retain a document that shows the date and amount of payment (e.g. a bank statement) in addition to the invoice to evidence the reduction in consideration.
 - if the supplier's invoice does not state that a credit note will not be issued, the customer must adjust the VAT they claim as input tax when the credit note is received. They must retain the credit note as proof of the reduction in consideration.

Note

The information in this document is accurate at time of publishing by HMRC (22 December 2014) and should not be relied upon as current. Please visit this [link](#) for the most up-to-date details relating to PPD legislation.

Preparation in Dynamics NAV

What you need to do to get ready.

If discounted prices are paid in accordance with the Prompt Payment Discount terms with your customers, then you must adjust your records to record the output tax on the amount actually received.

Simply follow these easy steps.

1

Set adjust for payment discount to "Yes" in "General Ledger Setup".

Edit - General Ledger Setup

HOME ACTIONS

View Edit OneNote Notes Links Refresh Clear Filter

General Ledger Setup

General

Allow Posting From: 01/01/2014
 Allow Posting To: 31/01/2014
 Register Time:
 Local Address Format: City+ County+Po...
 Local Cont. Addr. Format: After Company ...
 Inv. Rounding Precision (LCY): 0.01
 Inv. Rounding Type (LCY): Nearest
 Allow G/L Acc. Deletion Before:
 Check G/L Account Usage:
 EMU Currency:

LCY Code: GBP
 Pmt. Disc. Excl. VAT:
Adjust for Payment Disc.:
 Unrealised VAT:
 Prepayment Unrealised VAT:
 Max. VAT Difference Allowed:
 VAT Rounding Type: Nearest
 VAT Tolerance %:
 Bill-to/Sell-to VAT Calc.: Bill-to
 Print VAT specification in LCY:
 Use Legacy G/L Entry Locking:

Numbering
 Dimensions
 Reporting

2

Set adjust for payment discount to "Yes" in "VAT Posting Setup".

VAT Posting Setup

VAT Bus. Postl.	VAT Prof. Postl.	VAT Identifier	VAT %	VAT Calculation Type	Sales VAT Account	Purchase VAT Account	Reverse Chrg. Acc.	VAT Clause	EU Serv.	Adjust for Payment Discount
EU	NO VAT	NO VAT	0	Normal VAT	5610	5620				<input type="checkbox"/>
EU	VAT20	VAT20	20	Reverse Ch.	5610	5620	5620			<input type="checkbox"/>
EU	VAT5	VAT5	5	Reverse Ch.	5611	5621	5621			<input type="checkbox"/>
EXPORT	NO VAT	NO VAT	0	Normal VAT	5610	5620				<input type="checkbox"/>
EXPORT	VAT20	VAT20	0	Normal VAT	5610	5620				<input type="checkbox"/>
EXPORT	VAT5	VAT5	0	Normal VAT	5611	5621				<input type="checkbox"/>
NATIONAL	FULLVAT	FULL VAT	0	Full VAT	5613	5623				<input type="checkbox"/>
NATIONAL	NO VAT	NO VAT	0	Normal VAT	5610	5620				<input type="checkbox"/>
NATIONAL	VAT20	VAT20	20	Normal VAT	5610	5620				<input type="checkbox"/>
NATIONAL	VAT5	VAT5	5	Normal VAT	5611	5621				<input checked="" type="checkbox"/>

3

Add accounts in "General Posting Setup" in the following fields - "Sales Pmt Disc Debit Account" and "Sales Pmt Disc Credit Account".

General Posting Setup

Show results

Gen. Bus. Postl.	Gen. Prod. Postl.	Sales Account	Sales Credit Memo Account	Sales Line Disc. Account	Sales Inv. Disc. Account	Sales Pmt. Disc. Debit Acc.	Sales Pmt. Disc. Credit Acc.	Sales Pmt. Tol. Debit Acc.	Sales Pmt. Tol. Credit Acc.	Purch. Account	Purch. Credit Memo.	Purch. Disc. Account	Purch. Line Disc. Account
LU	RETAIL	6120	6910	6910						7120	7120	7140	7140
EU	SERVICES	6420	6420	6910	6910					7120	7120	7140	7140
EXPORT	MANUFACT	6130	6130	6910	6910					7130	7130	7160	7160
EXPORT	MISC	6130	6130	6910	6910					7130	7130	7160	7160
EXPORT	NO VAT	6130	6130	6910	6910					7130	7130	7160	7160
EXPORT	RAW MAT	6220	6220	6910	6910					7220	7220	7240	7240
EXPORT	RETAIL	6130	6130	6910	6910					7130	7130	7160	7160
EXPORT	SERVICES	6430	6430	6910	6910					7130	7130	7160	7160
INTERCOMP	MISC	6130	6130	6910	6910					7130	7130	7160	7160
INTERCOMP	NO VAT	6130	6130	6910	6910					7130	7130	7160	7160
INTERCOMP	RAW MAT	6120	6120	6910	6910					7120	7120	7140	7140
INTERCOMP	RETAIL	6130	6130	6910	6910					7120	7120	7140	7140
NATIONAL	MANUFACT	6110	6110	6910	6910	9130	9130			7110	7110	7140	7140
NATIONAL	MISC	6110	6110	6910	6910	9130	9130			7110	7110	7140	7140
NATIONAL	NO VAT	6110	6110	6910	6910	9130	9130			7110	7110	7140	7140
NATIONAL	RAW MAT	6210	6210	6910	6910	9130	9130			7210	7210	7240	7240
NATIONAL	RETAIL	6110	6110	6910	6910	9130	9130			7110	7110	7140	7140

If payment has been made within the terms set for PPD, when posting the cash receipt journal in Dynamics NAV the value received will be debited to the bank account, the amount less discount will be credited to the debtors control account. The discounted amount will be debited the "Sales Pmt. Disc Debit Account" and the amended VAT will be debited to the sales VAT account. If the full amount is received no adjustment will be necessary.

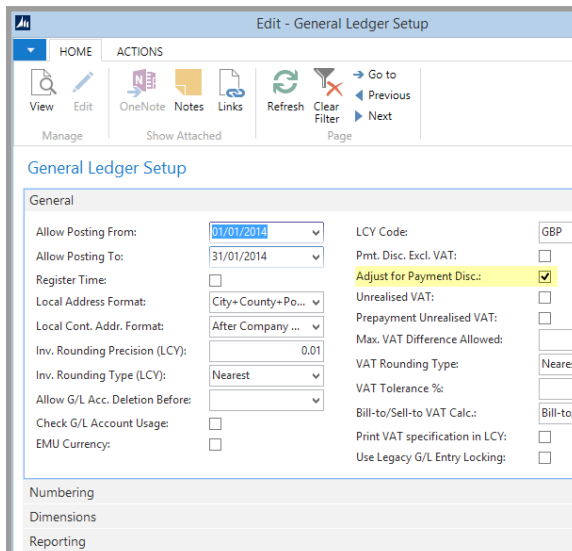
Setting up Dynamics NAV For paying suppliers with PPD offered.

The process of setting up Dynamics NAV for paying suppliers with the early PPD offered is very straight forward.

Simply follow these easy steps.

1

Set adjust for payment discount to "Yes" in "General Ledger Setup".



2

Set adjust for payment discount to "Yes" in "VAT Posting Setup".

VAT Bus. Post.	VAT Prof. Post.	VAT Identifier	VAT %	VAT Calculation Type	Sales VAT Account	Purchase VAT Account	Reverse Chrg. VAT Acc.	VAT Clause	EU Serv.	Adjust for Payment Discount
EU	NO VAT	NO VAT	0	Normal VAT	5610	5620				<input type="checkbox"/>
EU	VAT20	VAT20	20	Reverse Ch.	5610	5620	5620			<input type="checkbox"/>
EU	VAT5	VAT5	5	Reverse Ch.	5611	5621	5621			<input type="checkbox"/>
EXPORT	NO VAT	NO VAT	0	Normal VAT	5610	5620				<input type="checkbox"/>
EXPORT	VAT20	VAT20	0	Normal VAT	5610	5620				<input type="checkbox"/>
EXPORT	VAT5	VAT5	0	Normal VAT	5611	5621				<input type="checkbox"/>
NATIONAL	FULLVAT	FULL VAT	0	Full VAT	5613	5623				<input type="checkbox"/>
NATIONAL	NO VAT	NO VAT	0	Normal VAT	5610	5620				<input type="checkbox"/>
NATIONAL	VAT20	VAT20	20	Normal VAT	5610	5620				<input type="checkbox"/>
NATIONAL	VAT5	VAT5	5	Normal VAT	5611	5621				<input checked="" type="checkbox"/>

3

Add accounts in "General Posting Setup" in the following fields – "Purch. Pmt Disc Debit Account" and "Purch. Pmt Disc Credit Account":

Gen. Bus. Post.	Gen. Prod. Post.	Sales Account	Sales Credit Account	Sales Line Disc. Account	Sales Inv. Disc. Account	Sales Perm. Disc. Debit Acc.	Sales Perm. Disc. Credit Acc.	Sales Post. Tot. Debit Acc.	Sales Post. Tot. Credit Acc.	Purch. Account	Purch. Credit Memo.	Purch. Line Disc. Account	Purch. Inv. Disc. Account	Purch. Perm. Disc. Debit Acc.	Purch. Perm. Disc. Credit Acc.
		MANUFACT 6110	6110	6110	6110			7110	7110	7140	7140				
		MISC													
		NO VAT													
		RAW-MAT													
		RETAIL													
		SERVICES													
EU		MANUFACT 6120	6120	6910	6910			7120	7120	7140	7140				
EU		MISC 6130	6130	6910	6910			7130	7130	7140	7140				
EU		NO VAT 6130	6130	6910	6910			7130	7130	7140	7140				
EU		RAW-MAT 6230	6230	6910	6910			7230	7230	7240	7240				
EU		RETAIL 6330	6330	6910	6910			7330	7330	7340	7340				
EU		SERVICES 6430	6430	6910	6910			7430	7430	7440	7440				
EXPORT		MANUFACT 6130	6130	6910	6910			7130	7130	7140	7140				
EXPORT		MISC 6130	6130	6910	6910			7130	7130	7140	7140				
EXPORT		NO VAT 6130	6130	6910	6910			7130	7130	7140	7140				
EXPORT		RAW-MAT 6230	6230	6910	6910			7230	7230	7240	7240				
EXPORT		RETAIL 6330	6330	6910	6910			7330	7330	7340	7340				
EXPORT		SERVICES 6430	6430	6910	6910			7430	7430	7440	7440				
NATIONAL		MANUFACT 6110	6110	6910	6910			7110	7110	7140	7140				
NATIONAL		MISC 6110	6110	6910	6910			7110	7110	7140	7140				
NATIONAL		NO VAT 6110	6110	6910	6910			7110	7110	7140	7140				
NATIONAL		RAW-MAT 6210	6210	6910	6910			7210	7210	7240	7240				
NATIONAL		RETAIL 6310	6310	6910	6910			7310	7310	7340	7340				

If payment has been made within the terms set for PPD, when posting the payment journal in Dynamics NAV the value paid will be credited to the bank account, the amount less discount will be debited to the creditors control account. The discounted amount will be credited to the "Purch. Pmt. Disc Credit Account" and the amended VAT will be credited to the Purchases VAT account. If the amount is paid later than the discount due date no adjustments are made.

4

When paying suppliers, ensure "Find Payment Discounts" is checked/selected.

Options

Find Payments

Last Payment Date: 31/01/2014

Find Payment Discounts:

Use Vendor Priority:

Available Amount (LCY):

Skip Exported Payments:

Summarise Results

Summarise per Vendor:

By Dimension:

Fill in Journal Lines

5

If you are posting a manual payment journal, when you are applying the entry, the discount to take will show in the "Remaining Pmt Disc Possible" column and the total payment discount deducted will appear at the bottom of the screen.

Document No.	External Document No.	Vendor No.	Description	Currency Code	Remaining Amount	Apppl. Remaining Amount	Amount to Apply	Remaining Pmt Disc Possible	
100018	10000	10000	Opening Entries, Vendors		-24,152.36	-24,152.36	0.00	0.00	
100018	5672	10000	Opening Entries, Vendors		-57,965.67	-57,965.67	0.00	0.00	
100018	23547	10000	Order 100002		-7,644.08	-7,644.08	0.00	0.00	
100019	23587	10000	Order 100003		-7,751.02	-7,751.02	0.00	0.00	
100023	24521	10000	Order 100006		-14,895.24	-14,895.24	0.00	0.00	
100029	3745	10000	Invoice 1001		-120.00	-120.00	-120.00	-2.40	
				Amount to Apply	-120.00	Pmt. Disc. Amount	2.00		
				Rounding	0.00	Applied Amount	-117.60	Available Amount	0.00

6

Note: The settlement discount % is set against the customer or vendors payment terms. The "Payment Terms" table in Dynamics NAV is a shared table for customers and vendors.

Code	Due Date Calculation	Discount Date Calculation	Discount %	Calc. Pmt. Disc. on Cr. Memos	Description
14 DAYS	14D		0	<input type="checkbox"/>	Net 14 days
1M(8D)	1M	8D	2	<input checked="" type="checkbox"/>	1 Month/2% 8 days
21 DAYS	21D		0	<input type="checkbox"/>	Net 21 days
7 DAYS	7D		0	<input type="checkbox"/>	Net 7 days
CM	CM		0	<input type="checkbox"/>	Current Month



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Technology Management

The Old Rectory,
57 Waterloo Road,
Wolverhampton WV1 4QH.



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