Prompt Payment Discount Invoices

From April 2015, HMRC changed the rules as to how VAT should be accounted for on invoices with a prompt payment discount. This note sets out how affected invoices should be processed in CUFS.

Prior to the change, VAT would always be calculated on the discounted value irrespective of whether the discount was actually taken. Now, suppliers offering prompt payment discount must record the VAT amount on the full invoice price. If the supplier is offering a prompt payment discount, the rate and terms of the discount offered will also be shown on the invoice.

The supplier will not know if the discount has been taken until they are paid in accordance to the terms offered on the invoice.

Suppliers may issue a credit note to evidence the reduction in payment made and the reduced VAT on that payment value. If a supplier does not wish to issue a credit note **(preferred option),** the original invoice must contain the following information:

- The terms of the Prompt Payment Discount (time and discount offered); and

- A statement that the customer can only recover the actual VAT paid to the supplier.

- Additionally invoices **may** show the discounted price, discounted VAT and total amount due if discount is taken.

How should I process a discounted invoice on UFS?

The process for entering the invoice onto UFS is essentially the same as that for a standard invoice, but careful attention needs to be paid to the **Invoice Amount and VAT** fields as these will need to be manually adjusted if it can be paid within the discount terms period.

a) Calculate what the total payment to the supplier will be if the discount is taken. For example, for a £481.20 invoice including £80.20 VAT with a 5% prompt payment discount, the total amount payable will be £481.20 x 95% = £457.14.

b) Process the invoice as normal and enter gross amount **including the discount taken** (i.e. £457.14 in the above example) in the Invoice Amount field.

c) Enter the amount of VAT as calculated with discount into the **VAT Control Amount** field (e.g. £80.20 x 95% = £76.19 in the above example).

d) Leave the gross value in the *Discountable Amount* field as this will be amended automatically once the invoice has been validated.

e) Amend the **Terms** box e.g. within 14 days.

f) Either **Match** to the Purchase Order, or click on **Lines** tab and enter your line as normal putting in the net amount from the invoice (i.e. before discount and prior to VAT) and enter the correct VAT rate in the Tax Name box.

g) Click on **Calculate Tax.** The system will calculate VAT, however it will be over-ridden by the value that was entered in the *VAT Control Amount.*

h) Close out of the *Lines* Tab and click on **Actions 1.**

i) **Validate** your invoice and click **OK.**

j) Invoices that are being matched to a Purchase order will need the **hold released manually** as there will be one called 'Tax Amount Range'. To override this hold click in the *Release Name* field and select **Natural Account Tax OK.**

k) **Save** your work and it should update to Awaiting Secondary Approval.

l) Ensure that the invoice is secondary approved promptly to facilitate payment within the discounted terms period.

Example:
We purchase two items that cost us £401.00 plus VAT of £80.20 (£481.20 in total – see example below). However, the supplier offers us a 5% discount if we pay within 14 days of their invoice date.

CUFS INVOICES

Type	PO Number	Supplier	Supplier Num	Site	Invoice Date	Invoice Num	Invoice Curr	Invoice Amount	VAT Control Amount	VAT Amount	Terms
Standard		OFFICE DEPOT UK LTD	61141	ANDOVER	01-JUN-2015	PROMPTPAY	GBP	457.14	76.19	76.19	Net 14

Terms must be without discount figure as dicount already applied

1 General	2 Lines	3 Holds	4 View Payments	5 Scheduled Payments	6 View Prepayment Applications

CUFS INVOICE LINES

Total Gross 457.14   Retained   Net 457.14

Num	Type	Net Amount	Tax Name	Charge Account	Track As Asset	Description	Item Description	GL Date	Project
1	Item	380.95	SR20.0%	U.PD.PDBA.AAAA.ESFA.0000	☐	PROMPT PAYMENT		01-JUN-2015	
2	Tax	76.19			☐	PROMPT PAYMENT		01-JUN-2015	
					☐				

Example PPD Invoice

INVOICE

Company Ltd
1 Industrial Road

To:
North Road

Customer Ltd
London

2 Bowman Street
N12 XXX

Leicester

LE1 XXX

Company No:	123456
VAT Registration No:	987 6543 21

Invoice Number	100234	**Tax Date**	31/05/2015
PO Number	POA0123	**Terms**	28 Days
		Payment Due	28/06/2015

Quantity		Description	Price	Net	VAT %	VAT	Gross
	1	Item 1	£1.00	£1.00	20	£0.20	£1.20
	2	Item 2	£200.00	£400.00	20	£80.00	£480.00

Net	£401.00
VAT	£80.20
Total	£481.20

Wording with this meaning must be included

A discount of 5% of the full price applies if payment is made within 14 days. No credit note will be issued. Following payment you must ensure you have only recovered the VAT actually paid.

If you pay within 14 days the discounted price is :

Net	380.95
VAT	76.19
Total	457.14

Optional