Cash Accounting

What is it? When did it start?

You can use the cash basis for Self-Assessment Tax Returns (starting from 6th April 2013) if you:

- are a small self-employed businesses (sole traders and partnerships but not Limited Liability Partnerships)
- have an income of £81,000 or less a year (this is the threshold when you have to register for VAT)

You can choose to record your business income and expenses over the tax year in 1 of the following ways:

- using cash basis – record money when it actually comes in and goes out of your business (all money counts – cash, card payments, cheque, any other method)
- using traditional accounting (accruals basis) – record income and expenses when you invoice your customers or receive a bill

Cash basis might suit smaller businesses because, at the end of the tax year, you won't have to pay Income Tax on money you haven't received yet.

You must keep records of:

- business income received
- business expenses paid

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Cash Accounting might be simpler but it isn't always better…

- Suppliers – if you have trade accounts with suppliers then you will have creditors, many small businesses get paid quickly for example a shop or a window cleaner, they don't have debtors, so the cash basis may not be the best option
- Capital Allowances – many small businesses will claim capital allowances for their car (and claim most of the running costs too), with the cash basis you can only claim a set mileage allowance https://www.gov.uk/simpler-income-tax-simplified-expenses/vehicles-
- Equipment Finance – Under cash accounting money you owe isn't counted until you pay it (unlike traditional capital allowances) and interest and charges are limited to £500 https://www.gov.uk/simpler-income-tax-cash-basis/income-and-expenses-under-cash-basis

Carefully consider your tax position before opting for Cash Accounting

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