Global 3000
Service Pack Note

Prompt Payment (Settlement) Discount - VAT Calculation

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INTRODUCTION

This service pack updates Debtors Ledger, Creditors Ledger and SOP to correctly account for VAT on transactions where prompt payment discount is offered.

The following changes only apply to Global 3000 V6.0. Neither Global 3000 V5.0 nor Global 2000 have been modified to correctly account for VAT on transactions where prompt payment discount is offered. Any customer using V5.0 or Global 2000 who offers prompt payment discount should either make manual adjustments to ensure the correct VAT is reported and accounted for correctly, or upgrade to Global 3000 V6.0.

HMRC state (within the Budget 2014 documentation) the following:

Legislation was introduced in Finance Bill 2014 to amend UK VAT legislation on prompt payment discounts. Until now HMRC has interpreted UK legislation to allow suppliers to account for VAT on the discounted price offered for prompt payment even when that discount is not taken up. The change will ensure that UK and EU law are clearly aligned and that VAT is accounted for on the full consideration paid for goods and services where prompt payment discounts are offered. For supplies of telecommunication and broadcasting services where there is no obligation to provide a VAT invoice the change takes effect from 1 May 2014. For all other supplies the change will come into effect on 1 April 2015. A consultation will be carried out on implementation prior to the commencement of the main change in April 2015.

Further information is available in document:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/293888/TIIN_9022_VAT_prompt_payment_discounts_.pdf

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For example: Assuming a tax rate of 20% and a discount offered of 10%.

Prior to April 2015 the way in which tax is calculated when settlement discount is offered works as follows:

If the customer is offered settlement discount the tax is always calculated on the reduced net as follows:

Net: 100.00   Discount 10.00   Tax: 18.00 (100 -10 * 20%)   Gross: 118.00

If the user takes the discount they will pay 108.00 (100 – 10 + 18.00).

If the user does not take the discount they still pay the reduced amount of tax. In the past HMRC have been happy to allow the tax to be reduced because settlement discount was traditionally offered on business to business transactions and they would receive the full tax rate when the goods were sold on to a non-business customer.

Under the new rules (from 1st April 2015):

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The invoice is calculated as if there is no settlement discount:

Net: 100.00   Discount: 12.00 (10% of the gross)   Tax: 20.00   Gross: 120.00

When the customer pays and takes the discount they pay.

Net: 88.00   Discount: 12.00 (taken)   Tax: 20.00   Gross: 108.00

When the payment is allocated to the invoice, tax is calculated on the discount (20% of 10.00) and this can be reclaimed (2.00), this means that overall the tax amount paid is 18.00 (as per the original example), the only difference is that if the discount is not taken the HMRC get the full tax amount rather than a reduced value.

The Global-3000 V6.0 software will implement these rules according to the transaction date.

Currently the system can be configured to calculate settlement discount on gross values and to analyse settlement discount to net and tax, this combination causes the system to operate exactly as the new changes require.

However, when settlement discount is analysed to net and tax it is no longer possible to use standard allocation batches. This is because a physical payment/receipt transaction is required to claim back the tax paid on settlement discount, a zero value payment/receipt can be entered to drive the allocations in place of an allocation batch.

The following changes have been made (note: unless stated they apply to both Debtors Ledger and Creditors Ledger):

The tax settings (within administration parameters) have been updated to reword the text referring to UK tax processing. In addition the options relating to the analysis of settlement discount are no longer dependent on the system being configured to calculate settlement discount on gross values.

Transaction entry has been updated to rename the existing 'Allocation' batch type as 'Allocation without discount', when selected a standard allocation batch can be entered however, transactions that carry a discount value cannot be selected. A new option (labelled 'Allocation with discount') has been created, when selected a payment/receipt batch specifically identified as being for allocation is created. Payments/receipts within an 'Allocation with discount' batch are automatically zero valued and have an indicator in enquiries to identify them. The transaction reference for these is automatically generated and there is a new setting within system maintenance to allow the prefix to be specified (the default prefix is 'AD' for Debtors Ledger or 'AP' for Creditors Ledger. If either is in use then 'AL' is used as the default).

Global 3000 Sales Order Processing (SOP) and Global 3000 Purchase Order Processing (POP) have been be updated to ensure tax is calculated correctly when settlement discount is offered.

In systems configured to analyse settlement discount taken to net and tax system, whenever a DL receipt or CL payment is posted, the items allocated to the receipt/payment are checked for settlement discount. Those that have settlement discount are then checked to see if the tax was calculated on the full net or discount net amount. If the tax was calculated on the full net amount the tax due/paid on the discount amount is then automatically reclaimed. When the adjustments for this are posted to General Ledger the tax class is set to either 'OD'(output

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discount) or ID (input discount). **Important Note:** A new improved and revised VAT Reconciliation Report will be released prior to 01/04/2015 to cater for the new tax classes.

The changes are currently effective from the 1st April 2015 (for the majority of users), after this date Debtors Ledger and Creditors Ledger will warn the user periodically if the system is configured to calculate tax net of settlement discount and the country for the company (selected) is 'GB'.

To conform to the new legislation UK based businesses must configure the system (via system parameters, administration, tax codes, tax options) so that tax is **NOT** calculated net of settlement discount and to (via the discount analysis button) calculate settlement discount on gross invoice values and to analyse settlement discount taken to net and tax.

The system must be configured correctly on either 01/04/2015 or 01/05/2014 depending on the nature of your business. As of 01/04/2015 the system will display a warning (within DL and CL) if the system is not configured correctly and the selected company is UK based (i.e. its address country is set to 'GB'). **Important Note:** The system must be configured correctly regardless of whether or not prompt payment (settlement) discounts are in use.

Important Note: HMRC have stated that invoices on which prompt payment (settlement) discount is offered MUST contain wording with the following meaning "A discount of nn% of the full price applies if payment is made within nn days. No credit note will be issued. Following payment you must ensure you have only recovered the VAT actually paid". The standard invoice prints and PDF format invoices have been updated to include words to the above effect. However, it should be noted that due to space on the stationary, PDF format invoices (which are the preferred format for invoices) contain a much more verbose and meaningful message. You are strongly recommended to switch to PDF reports if you are not already using this format. If you have been supplied with a tailored invoice layout you must check with your software supplier to ensure that your invoices will continue to meet HMRC regulations.

DOCUMENTATION CHANGES

Operating Options – Tax Settings - Settlement Discount Analysis Window
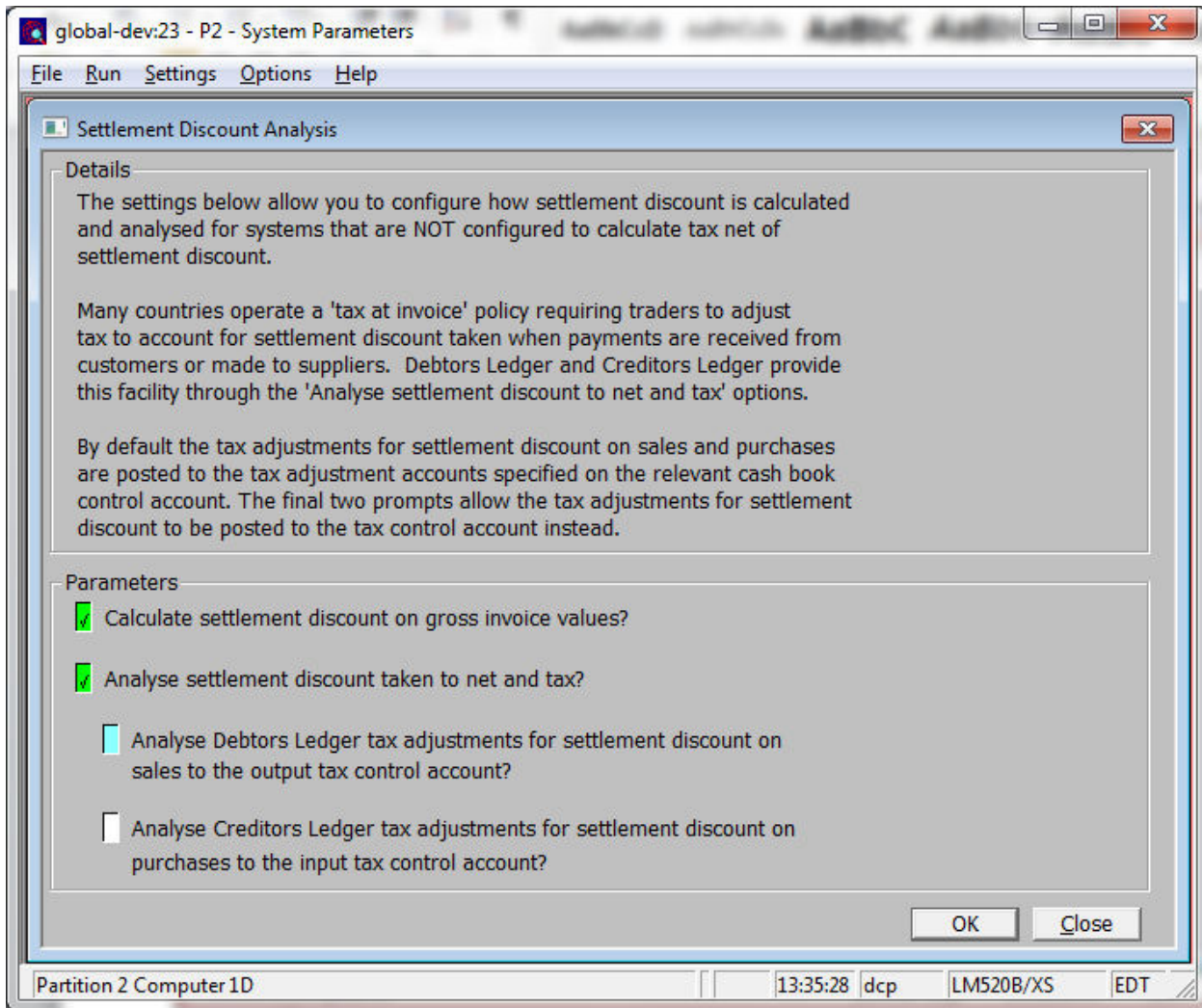
This window appears when you press the 'Discount Analysis' button within the 'Tax Rate Controls' Tax Options window.

Purpose	This window enables you to configure how settlement discount is calculated and analysed in systems **not** calculating tax net of settlement discount.

The prompts are:

Note	All options in this window are only available for systems NOT configured to calculate tax net of settlement discount (i.e. as per UK HMRC legislation).
Calculate settlement discount on gross invoice values?	*(Only available if Debtors Ledger or Creditors Ledger are in use)* Set this to configure Debtors Ledger and Creditors Ledger to calculate settlement discount on the gross value of invoices.
Note	Many countries operate a "tax at invoice" policy requiring traders to adjust tax to account for settlement discount taken when payments are received from customers and made to suppliers. Global 3000 Debtors Ledger and Global 3000 Creditors Ledger provide this facility through the "Analyse settlement discount taken to net and tax" option.

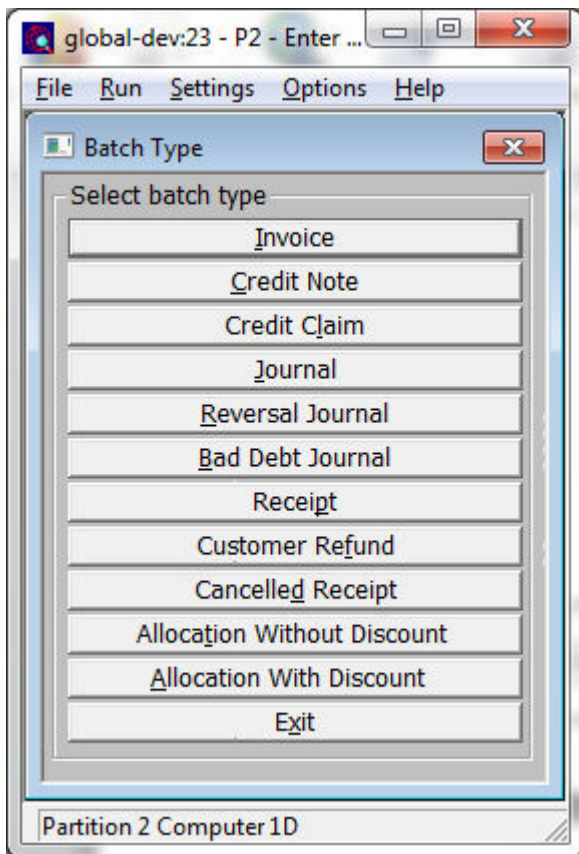|	
Analyse settlement discount taken to net and tax?	*(Only available if Debtors Ledger or Creditors Ledger are in use)* Set this to configure Debtors Ledger and Creditors Ledger so that the portion of settlement discount taken with a payment/receipt that is allocated against the tax portion of an invoice is analysed to a separate General Ledger profit centre and account when the payment/receipt is posted.
Note	The analysis of settlement discount to both net and tax only applies to Debtors Ledger and Creditors Ledger. It only takes place for receipts and payments allocated prior to posting and those allocated via 'Allocation with discount' type payment/receipt batches. It does not take place for items allocated via 'Allocation without discount' type batches. If settlement discount is analysed to both net and tax the 'GL analysis by batch' option is skipped for payment and receipt batches and the General Ledger analysis is generated for each individual transaction in the batch.
Analyse Debtors Ledger settlement discount on tax to output tax control accounts?	*(Only available if Debtors Ledger is in use and settlement discount taken is analysed to net and tax)* When set Debtors Ledger settlement discount on tax is analysed to the relevant output tax control accounts. When not set Debtors Ledger settlement discount on tax is analysed to a profit centre and account specified on the cash book control account relating to the receipt being posted.
Note	Regardless of the above setting, when settlement discount on tax is posted to General Ledger tax class OD (output discount) is used.
Analyse Creditors Ledger settlement discount on tax to input tax control accounts?	*(Only available if Creditors Ledger is in use and settlement discount taken is analysed to net and tax)* When set Creditors Ledger settlement discount on tax is analysed to the relevant input tax control accounts. When not set Creditors Ledger settlement discount on tax is analysed to a profit centre and account specified on the cash book control account relating to the payment being posted.
Note	Regardless of the above setting, when settlement discount on tax is posted to General Ledger tax class ID (input discount) is used.

DL Transaction Entry – Batch Type Selection

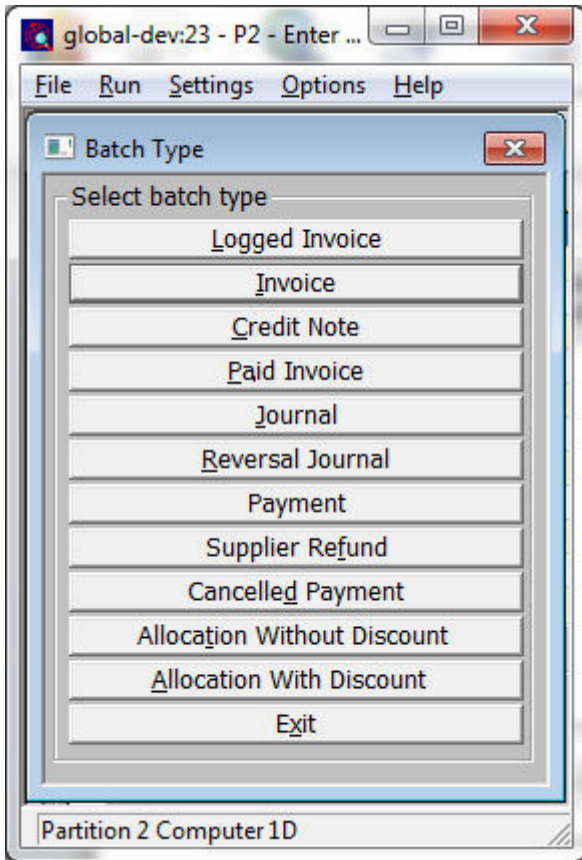|	
Allocation	*(Not available if settlement discount taken is analysed to net and tax)* Select this to enter an allocations batch.
Allocation without discount	*(Only available if settlement discount taken is analysed to net and tax)* Select this to enter an allocations batch, however when using this option you cannot select any transactions that have settlement discount.
Allocation with discount	*(Only available if settlement discount taken is analysed to net and tax)* Select this to enter a special receipts batch for the purpose of allocation. This should be used where settlement discount has been taken and the tax on the discount is to be reclaimed.
Note	Receipts generated for allocation purposes are zero valued and have their own auto-generated document number (the prefix which defaults to 'AR' and next number can be adjusted within system parameters if required). Standard allocation batches cannot be used when settlement discount is analysed to net and tax because if tax is reclaimed it must be posted on to general ledger via a receipt.

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CL Transaction Entry – Batch Type Selection

Allocation   *(Not available if settlement discount taken is analysed to net and tax)* Select this to enter an allocations batch.

Allocation without discount   *(Only available if settlement discount taken is analysed to net and tax)* Select this to enter an allocations batch, however when using this option you cannot select any transactions that have settlement discount.

Allocation with discount   *(Only available if settlement discount taken is analysed to net and tax)* Select this to enter a special payments batch for the purpose of allocation. This should be used where settlement discount has been taken and the tax on the discount is to be reclaimed.

Note   Payments generated for allocation purposes are zero valued and have their own auto-generated document number (the prefix which defaults to 'AP' and next number can be adjusted within system parameters if required). Standard allocation batches cannot be used when settlement discount is analysed to net and tax because if tax is reclaimed it must be posted on to general ledger via a payment.

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DL System Parameters – Document Numbers
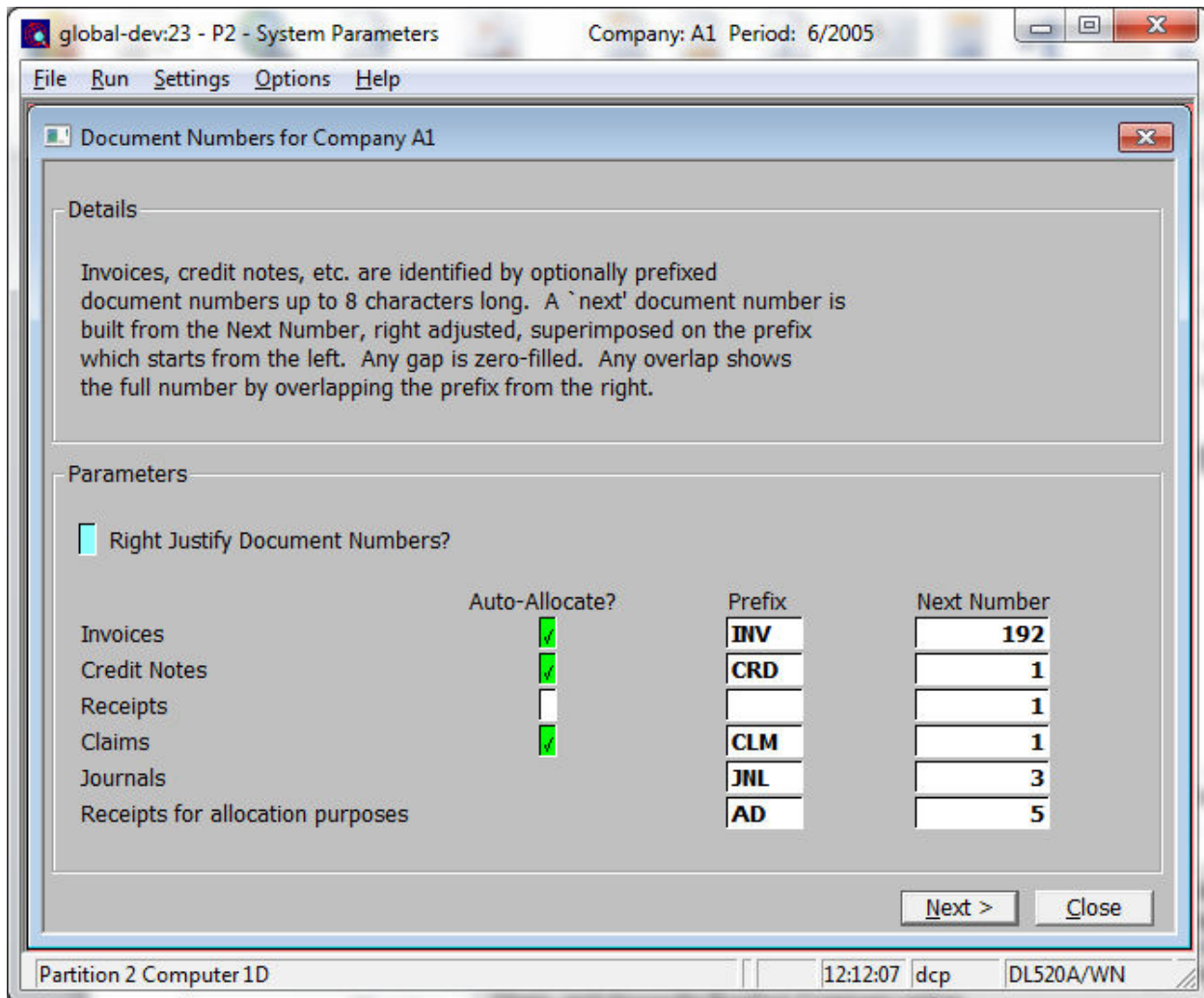
Purpose	The settings in this window control document numbers for invoices, credit notes, receipts, credit claims, journals and receipts used for allocation purposes. Document numbers provide each transaction with a unique id.		
Note	The parameters in this window are company-specific. This means they only apply to the currently selected company. The code of the currently selected company is displayed in the window's title bar. You need to set the parameters up for each company in turn. To change the company, return to the Debtors Ledger Parameters Menu, and choose the Reselect Company option.		
Warning	Generally you should not change the settings in this window after initial set up. If you do need to change any of them, take great care to avoid duplicate references being generated.		

The first prompt is:

Right justify document numbers	Set this if you are using numeric document numbers. This does not affect document numbers which use a prefix, as the numeric part of the number is automatically right-justified.

The prompts for each transaction type are:

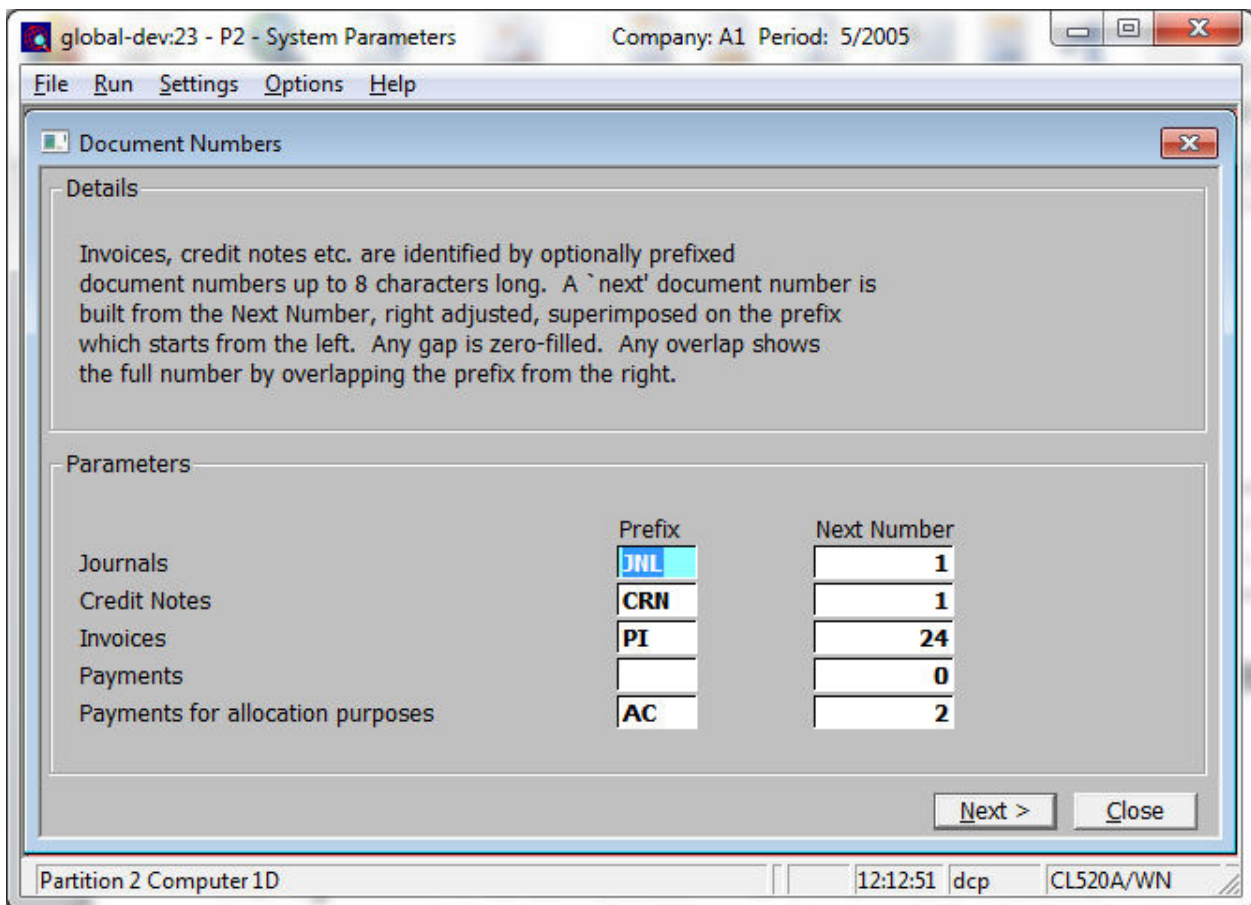|	
Auto-allocate	*(Not journals or receipts for allocation purposes.)* Set this if you want Debtors Ledger to automatically generate document numbers for this transaction type. Automatically generated document numbers cannot be changed. If this is not set you can enter document numbers manually for the transaction type. Each document number you enter must be unique.
Note	References for Journal and receipts for allocation purposes are always allocated automatically.
Prefix	You can optionally enter a prefix of up to four characters to be combined with the 'Next number' to form an eight character transaction reference. For example, a prefix of 'INV' and a next number of 56 are combined to form a document number of 'INV00056'.
Notes	If wholly numeric references are required, leave this prompt blank and set the 'Right justify document numbers' prompt. The use of a prefix for receipts for allocation purposes is not optional.
Next number	The next number to be used for this transaction type to form a transaction reference. Although it can be changed, this should not be done unless there is a very good reason.

CL System Parameters – Document Numbers

		Prefix	Next Number
Journals		JNL	1
Credit Notes		CRN	1
Invoices		PI	24
Payments			0
Payments for allocation purposes		AC	2

Purpose

The settings in this window control automatic document numbers for invoices (including logged invoices), credit notes, payments, journals and payments used for allocation purposes. Document numbers provide each transaction with a unique id.

You can specify, for each supplier, whether Creditors Ledger is to automatically generate document numbers for the supplier, or whether the operator is to enter them manually. However, document references for journals, payments for allocation purposes and bank transfers are always allocated automatically by the system.

Note

The parameters in this window are company-specific. This means they only apply to the currently selected company. The code of the currently selected company is displayed in the window's title bar. You need to set the parameters up for each company in turn. To change the company, return to the Creditors Ledger Parameters Menu, and choose the Reselect Company option.

Warning

Generally you should not change the settings in this window after initial set up. If you do need to change any of them, take great care to avoid duplicate references being generated.

The prompts for each transaction type are:

Prefix

You can optionally enter a prefix of up to four characters to be combined with the 'Next number' to form an eight character transaction reference. For example, a prefix of 'INV' and a next number of 56 are combined to form a document number of 'INV00056'.

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Notes	If wholly numeric references are required, leave this prompt blank and set the 'Right justify document numbers' prompt (available in the next window).
	The use of a prefix for payments for allocation purposes is not optional.
Next number	The next number to be used for this transaction type to form a transaction reference. Although it can be changed, this should not be done unless there is a very good reason.
Note	If the next number exceeds the available space, it overlaps the prefix; for example, a prefix 'JNL' and a next number 1234567 results in a document number of 'J1234567'.