



## **‘DISBURSEMENTS’ OR ‘RECHARGES’ – SHOULD YOU CHARGE VAT ON INVOICES TO YOUR CUSTOMERS (OR NOT) ?**

### **BACKGROUND**

- Quite frequently as part of our bookkeeping work, we see invoices forwarded to Customers where there is
  - **NO VAT** charged on one or more items on those invoices, and additionally,
  - these **NO VAT** items on the invoices are typically referenced as **‘Disbursements’** or **‘Recharges’**.
- When we query these transactions with our Client(s) their answer is generally that it is
  - **‘just a recharge or a ‘disbursement’** on behalf of their Customer, or
  - it’s just a straight **‘in and out’** amount, or more worryingly
  - my mate/chap down the pub/other does this in his/her business
- Given our knowledge of the VAT rules and exposure to VAT enquiries and investigations with HMRC, it is **NOT** always as simple as many of our Clients seem to think – **and presents some element of risk of having to make up the VAT yourself at a future VAT inspection from HMRC where you get it wrong !**

### **KEY ISSUES**

- For many businesses (including our own), there are many occasions where you are taking on some costs on behalf of your Customer (or Client) **AND** have agreed to recharge these costs **IN FULL** to that Customer.
- So the **KEY** question to be able to ensure that the VAT issue is dealt with accurately and clearly demonstrable on any HMRC review or Inspection is really around:
  - **‘is this a disbursement?’**
  - **‘is there VAT on recharges’**
  - **‘is there VAT on a reimbursement?’**
  - **‘do we charge VAT on expenses?’**
- From a technical point of view, the issue around these transactions when being recharged to a Customer (or Client) is whether the additional ‘costs’ in practice form part of the overall service being provided to your Client ?

### **WHAT IS A ‘DISBURSEMENT’ FOR IT TO BE NON VATABLE ON YOUR INVOICE(S) ?**

- **Section 25 of VAT Notice 700** states that **‘You may treat a payment to a third party as a disbursement for VAT purposes if ALL the following conditions are met:**
  1. you acted as the agent of your client when you paid the third party
  2. your client actually received and used the goods or services provided by the third party



3. your client was responsible for paying the third party e.g. solicitors and estate duty and stamp duty payable on a contract - **to be made by the client !**
  4. your client authorised you to make the payment on their behalf
  5. your client knew that the goods or services you paid for would be provided by a third party
  6. your outlay will be separately itemised when you invoice your client;
  7. you recover only the EXACT amount which you paid to the third party; and
  8. the goods or services, which you paid for, **are clearly additional to the supplies** which you make to your client on your own account.
- Again **PLEASE NOTE** that if **ALL** of the conditions **ARE NOT** satisfied then you **CANNOT** treat the cost as a '**Disbursement**' i.e. **NON VATable !**
  - For example - the condition for the Customer (or Client) to have Client actually received or used the services - means that any '**recharges**' in respect of your own travel, subsistence expenses, phone bills, postage, etc. cannot be treated as disbursements for VAT purposes !
  - Where these costs do not (clearly) meet the terms of a '**Disbursement**', then
1. VAT SHOULD be charged on your sales invoices on these recharges AND
  2. therefore conversely where VAT is NOT charged **you are at risk of having to 'make good' the VAT that should have been paid !**

#### **EXAMPLES OR SIMPLE CASE STUDIES**

- A solicitor recharging postal search fees is a typical '**disbursement**'.
- Where services are being provided to a Customer and costs are incurred in making those services e.g. travel to attend sites, meals, accommodation, etc), and although there may be agreement to reimburse these expenses - **the situation is that these expenses form part of the overall service being provided to the Customer, and therefore VAT is chargeable on ALL of the amounts to be invoiced to that Customer !**
- A builder who buys materials as part of a contract to supply and fit into a customer's premises, and while the materials may be destined to be ultimately '**paid for by the customer**', the initial purchase is by the contractor who has contracted with the builders' merchant to buy the materials. - **he has NOT acted as an agent of the customer in the purchase from the merchant !**
- **PLEASE NOTE** that any costs incurred and which have input tax applicable would be reclaimed subject to the normal VAT rules on the VAT return.

**If you are still having issues around deciding how to recharge costs or other 'disbursements' - then feel free to contact the SAKURA Team for more assistance and support !**

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