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Guidance

VAT: costs or disbursements passed to customers

How to account for VAT if you make supplies to your customers, and you pay certain costs that you pass on when you invoice them.

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Overview

When you make payments on behalf of your customers, for goods or services received and used by them, you might be able to treat these payments as 'disbursements' for VAT purposes. This means that you:

- don't charge VAT on them when you invoice your customer
- can't claim back any VAT on them

This guide explains when:

- you should charge VAT on the costs and expenses you pass to your customers

- payments like these can be treated as disbursements

Disbursements: costs to exclude from VAT calculations

A payment made to suppliers on behalf of your customers is called a 'disbursement' if you pass the cost on to your customers when you invoice them.

You might be able to leave out these payments from your VAT calculations because it's the customer, not you, who buys and receives the goods or services; you're just acting as their agent.

To treat a payment as a disbursement all of the following must apply:

- you paid the supplier on your customer's behalf and acted as the agent of your customer
- your customer received, used or had the benefit of the goods or services you paid for on their behalf
- it was your customer's responsibility to pay for the goods or services, not yours
- you had permission from your customer to make the payment
- your customer knew that the goods or services were from another supplier, not from you
- you show the costs separately on your invoice
- you pass on the exact amount of each cost to your customer when you invoice them
- the goods and services you paid for are in addition to the cost of your own services

It's usually only an advantage to treat a payment as a disbursement if the supplier didn't charge VAT on it, or if your customer can't reclaim the VAT.

What isn't a disbursement

There are many incidental costs your business might incur that must be included in VAT calculations when you invoice customers. These include items like travelling expenses and your own postage and delivery costs (<https://www.gov.uk/government/publications/vat-notice-70024-postage-and-delivery-charges>).

Costs that your business incurs itself when supplying goods or services to customers are not disbursements for VAT. It's you who buys the goods or services for use in your own business.

It's up to you whether or not you itemise costs like these on your invoices. If you do show them separately when you invoice your customers they're known as 'recharges', and not disbursements. You'll have to charge VAT on them whether you paid any VAT or not.

Some examples of costs that could be recharges but are not disbursements include:

- an airline ticket that you buy to visit a client or to travel to a job, if you recharge the cost to your client you must charge VAT because the flight was for you, not for the client
- postage costs you incur when you send letters to your customers, these are normal business costs and you must add VAT if you recharge them

- a bank transfer fee paid when transferring money from your business account to a client's account - even though the bank's fee is exempt from VAT, if you recharge the fee you must charge VAT, because it was for a service provided to your business and not to your customer

Showing disbursements and recharges on your invoices

If you exclude disbursements from the VAT calculations you must itemise them separately on your VAT invoices (<https://www.gov.uk/vat-record-keeping/vat-invoices>).

An example of an invoice showing disbursements and recharges

A website design consultant based in London does a week's work for a client in Edinburgh. The consultant visits the client's premises at the start of the week to discuss the project. The consultant also agrees to purchase a website hosting package from an Internet service provider on behalf of the client.

The consultant and the client agree the following fees:

Activity	Fee
Consultant's work	£2,500 plus VAT
Consultant's travelling expenses	£300
Website hosting package purchased on the client's behalf	£150

The £300 travel cost that the consultant recharges to the client is not a disbursement so the consultant must charge VAT on it. But the cost of the website hosting package is a disbursement and can be excluded from the VAT calculation, because:

- it was purchased for the use of the client
- the client agreed that the consultant would arrange and pay for it on their behalf - this means the consultant agreed to act as the client's agent
- the consultant passed the whole £150 charge on to the client, without adding anything, as a separate item on the invoice
- it was the client's responsibility to pay for the goods
- the consultant had permission from his client to make the payment
- the client knew the web hosting package was from another supplier and not from the consultant
- the consultant showed the costs separately in the invoice
- the web hosting package paid for by the consultant is additional to the other services being billed to the client

The consultant's invoice to their client for this work might include the following items:

- design services - £2,500

- travelling expenses - £300
- amount on which VAT is due - £2,800
- VAT at 20% - £560
- disbursements - £150
- total including VAT - £3510

When you can claim back VAT

If you had to charge VAT on items you paid for because they were supplied to you and not to your client, you can claim back any VAT you paid on them. It makes no difference whether or not you passed these costs on to your customers as recharges. You'll need a VAT invoice for each item you claim the VAT back on.

Your customer will also be able to claim back the VAT you charged them if they're VAT-registered.

When you can't claim back VAT

If you paid a VAT-registered supplier for goods or services on a customer's behalf, there may have been VAT on what they charged. You can't claim this VAT back if the goods or services were supplied to your customer and not to your business, and you treated this as a disbursement for VAT purposes when you invoiced your customer and did not charge VAT.

Your customer may also be unable to claim back the VAT if they don't have a valid VAT invoice for the goods or services.

What records you need to keep for VAT

If you pass on any disbursements to your customers and don't charge VAT on them, you must keep evidence, such as order forms and invoices, to show that you were entitled to leave the items out of the VAT calculation when you invoiced your customers.

You must also be able to show that you haven't claimed back the VAT on items you paid for on your customers' behalf.

Recharges

To claim back the VAT on costs and expenses you pass on to your customers as recharges, you'll need a valid VAT invoice (<https://www.gov.uk/vat-record-keeping/vat-invoices>) or receipt for each.

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