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Information Sheet 8/10/2008

VAT on disbursements

There is a misconception that travel, subsistence and other expenses charged on may be treated as disbursements and not subject to VAT. Unless the specific conditions for disbursements are met, VAT should normally be charged on expenses recharged to customers.

Costs that cannot be treated as disbursements for VAT purposes include:

- Costs incurred or services provided by a business in the course of providing a service to clients, e.g. account administration.
- Business expenses such as, travelling and subsistence costs, telephone expenses, postage and other office costs.
- Bank transfers fees to or from a professional's own client account.
- Royalty or licence fees incurred in providing goods or services to a customer or client.

The above costs should either be included in the price of the services on which VAT is charged, or invoiced or charged separately and VAT charged on them.

Payments made to a third party can be treated as a disbursement for VAT purposes if:

- You acted as agent of your client when you paid the third party.
- You charged your client the amount you paid out, without any mark-up.
- Your client authorised you to make the payment on their behalf.
- Your client received and used the goods or services provided by the third party.
- Your client was responsible for paying the third party.
- He item was itemised separately when invoiced to your client.
- The goods or services are additional to the services provided directly to the client.

See www.hmrc.gov.uk/vat/charge-disbursements.htm for full details.