LKA FACTSHEET

Should I charge VAT on expenses recharged to my client?

SHOULD I CHARGE VAT ON EXPENSES RECHARGED TO MY CLIENT?

A common question we are asked is whether or not we should charge VAT on expenses recharged to clients.

The simple answer is that if you are selling a standard rated product or service and you incurred expenses doing that – then you must charge VAT on the expenses that you are charging to your client. If you incurred a cost on behalf of your client, that you need to pass over to them – then is a disbursement. You pass the gross cost over to your client without charging VAT. Please note this factsheet applies to UK invoices only.

INCIDENTAL COSTS

Sometimes you will incur incidental costs during the delivery of a service or a product to a client that you might want to recharge to the client – such as hotel costs, mileage, taxi fares, train tickets, flights, subsistence or postage. These costs are your costs and they have been incurred by you and consumed in your own business. You have 'consumed' the product or service you are buying.

Posting the spend to your accounts:

- You will post VATable spends net – you can recover any VAT charged on hotel, meal and subsistence costs providing you have the proper VAT invoice or receipt of course. You would recharge that net cost to your client.

- Mileage expenses will be posted as costs to your accounts using the advisory fuel rates to recover the VAT element of your mileage claim. It is common practice to recharge mileage at 45p per mile whether you have recovered VAT on your mileage claim or not. You would have to charge VAT on the full mileage cost when you recharge it to your client – ie on the full 45p per mile.

- Train fares and postage are zero-rated items for VAT so you will not be charged or be able to recover VAT on these spends. You would recharge the full cost to your client.

RECHARGING INCIDENTAL COSTS

- If you are VAT registered and you are recharging expenses to your clients – then you must charge VAT on all of those expenses – regardless of whether or not you paid VAT on the spend in the first place.

- So when you recharge zero-rated expenses to the client – you have to add VAT to your recharge as the expenses are incidental to the main supply which is a standard rated.

Cost To You				Recharge		
Cost	**Net**	**VAT**	**Gross**	**Net**	**VAT**	**Gross**
Train Ticket	120	0	120	120	24	144
Plane Ticket	300	0	300	300	60	360
Hotel	140	28	168	140	28	168
Subsistence	20	4	24	20	4	24
Mileage – 100 x .45	43	2	45	45	9	54
Total	**623**	**34**	**657**	**623**	**125**	**748**

WHAT IF MY MAIN SUPPLY IS ZERO-RATED OR EXEMPT?

If your main supply of goods or services is not a standard rated supply, then you would recharge expenses at the same VAT rate. If your main supply is zero-rated or exempt, then your recharge would be zero-rated or exempt.

DISBURSEMENTS

Sometimes you might buy things on behalf of the client, with the full knowledge and permission of the client – that the client will consume. These are not expenses relating to your business, they relate to your client's business – these are called disbursements.

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

In this case, the costs belong to your client and you are acting as the agent.

You will not be able to recover any VAT you may have paid on the item, because the cost does not belong to your business. You can list disbursements at the bottom of your invoice to your client and not charge VAT on them.

If you buy a train ticket for you or your staff to travel to your clients' office, it's an expense and you must charge VAT on it when you recharge it to your client. If you are buying a train ticket for your client to travel with you to an event – you can pass the cost on as a disbursement and not charge VAT on it.

DOES IT MATTER IF A COST IS AN EXPENSE OR A DISBURSEMENT?

If both you and your client are VAT registered, then it makes little difference – you will recover VAT on your spends and charge VAT on the recharge to your customer. Your customer will recover VAT on the purchase.

If your client is not VAT registered and the cost did not have VAT on it, then there is a small advantage to recharging the cost as a disbursement – if the criteria for treating the cost as a disbursement are met.

If your customer is not VAT registered, they will, unfortunately, suffer the additional VAT on the recharge of your expenses.

WHAT SHOULD I DO IF I DISCOVER AN ERROR IN MY ACCOUNTS AND I HAVE NOT BEEN RECHARGING VAT ON MY EXPENSE RECHARGES?

The correct answer is to go back and amend the error. Raise credit notes against invoices raised with the wrong values on and raise new invoices with the correct VAT charged on expenses and ask the clients to pay the difference.

If the client is VAT registered and you have charged VAT inclusive expenses gross, then ultimately – the correction should result in an overall cost reduction – albeit a small one. Although they will pay more VAT to you in the short term, they can recover the VAT paid in their next VAT return.

If the client is not VAT registered, the additional VAT will go straight to their bottom line.

HOW WE CAN HELP

If you need help with any of the matters raised in this factsheet please call us on **020 3915 8585** or **email us**.