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Disbursements vs. Recharges

Businesses often recharge various goods/services to clients in addition to their services. However, there are certain rules to follow to determine whether the purchase is VATable, both when purchased from the supplier and recharged to their customer.

Disbursements

Overview: Payments you make to third parties on behalf of your customers, for goods or services received and used by them is called a "disbursement".

As the purchase is your client's expense and we've acted as "agents", the payment made to the third party and corresponding income received from your customer should not feature in the Profit or Loss – it should all pass through a Balance Sheet account such as "Disbursements".

A "disbursement" should therefore not be included in a VAT Return and should be coded to "No VAT" – both the purchase and the income.

Specifically, to treat a payment as a disbursement, all the following must apply:

- The supplier was paid on the customer's behalf, so you are acting as the agent of your customer
- Your customer received the goods/services and it was their responsibility to pay for those goods/services
- You had permission from your customer to make the payment and your customer knew the goods/services were coming from a third party supplier
- The costs must be shown separately on the invoice, and the exact amount has to be passed on (i.e. no mark up is applied).
- These costs are in addition and therefore separate to any fees agreed between you and your customer

Examples of disbursements

Disbursement example 1: A solicitor paying Stamp Duty Land Tax on behalf of his client.

Disbursement example 2: Purchasing a laptop on behalf of your customer whereby the laptop is invoiced and delivered directly to your customer.

Advantages to treating items as disbursements

It's usually only an advantage to treat a payment as a disbursement if the supplier didn't charge VAT on it, meaning there is no VAT for you to reclaim, or if your customer can't reclaim the VAT, meaning they can't reclaim any VAT you charge on top of recharges.

What isn't a disbursement?

Costs that a business incurs itself when supplying a good or service to customers are not disbursements for VAT.

These costs will usually be invoiced to the business supplying the good or service meaning any VAT charged on the purchase would be reclaimable by you.

Therefore, when invoicing clients for service provided and the additional costs incurred (i.e., the recharges), VAT must be charged on the additional recharges.

Examples of costs that aren't disbursements

Purchasing a train ticket to visit a client. Even though the train ticket was zero-rated, you must recharge the train ticket with VAT on top because the train ticket was for you, not the client.

Postage costs incurred when sending letters/parcels to customers. These are considered normal business costs in order to supply the goods to your customers.

Bank fees incurred when transferring money from your business to a client's account. Even though the bank fee is exempt from VAT, you must recharge the fee with VAT on top.

How a recharge & disbursement look on an invoice

Scenario: You raise an invoice for web consulting services totalling £2,000 + VAT for work on a project. To discuss the project, you go to visit the client and stay overnight. You and the client have agreed that the travel expenses will be reimbursed. The train ticket cost £150 and the hotel (standard-rated) for the night totalled £216. You also purchase on behalf of the client a domain hosting package for their project costing £300.

Invoice:

Web Consulting Services:	£2,000
Train Ticket:	£150
Hotel (exclusive of VAT):	£180
Subtotal on which VAT is due:	£2,330
VAT at 20%:	£466
Disbursements:	£300
Grand Total:	£3,096

Overall, it is important to understand whether a purchase is a disbursement or recharge especially for VAT purposes. Incorrectly stating a purchase is a disbursement when it is in fact deemed a recharge could tip a business's total taxable turnover over the VAT registration threshold meaning a business could be inspected for 'late' registration!

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