

Invoicing for Expenses

This factsheet is designed to explain the main methods of re-charging expenses to your client.

If your client reimburses your company for expenses incurred whilst undergoing your duties these must be invoiced for using one of the following three methods

- Adding on VAT

This is the simplest method and from our experience is accepted by most agencies and clients. By using this method you will have to charge VAT on the expenses invoiced whether you paid any VAT on them or not.

Example

The invoice issued from your company was for £10,000 net and also incurred hotel costs of £120 (including VAT) which your client has agreed to reimburse your company for. On the invoice you would simply show the expense of £120 with VAT added on at correct rate (currently 20%),

Work done	£10,000.00
Expenses	£120.00
Net Invoice	£10,120.00
VAT at 20%	£2,024.00 (£2,000 VAT on work done and £24 on hotel expenses)
Gross Invoice	£12,144.00

An I.T. consultant on the flat rate scheme at 14.5% using this method would, therefore, have a VAT liability of £1760.88 and, therefore, the turnover for the company would be £10,383.12 (£12,144.00 - £1,760.88). There is a small financial benefit using this method.

- Splitting out VAT

If your client or agency do not accept the first method then you will have to split the VAT element out of the expenses.

Example

The invoice issued from your company was for £10,000 net and also incurred hotel costs of £120 (including VAT) which your client has agreed to reimburse your company but will not allow the cost of additional VAT to be added,

Work done	£10,000.00
Expenses	£100.00 (£120 hotel costs less 20% VAT)
Net Invoice	£10,100.00
VAT at 20%	£2,020.00 (£2,000 VAT on work done and £20 on hotel expenses)
Gross Invoice	£12,120.00



An I.T. consultant on the flat rate scheme at 14.5% using this method would therefore, have a VAT liability of £1,757.40 and, therefore, the turnover for the company would be £10,362.60 (£12,120.00 - £1,757.40). There is a small financial loss using this method.

- Disbursement (very rare situations)

If you sometimes pay suppliers on behalf of your customer, and you pass on the cost to your customers when you invoice them, then you might be able to leave out these payments from the VAT calculation. In this situation it is the customer, not you, who buys and receives the goods or services - you are acting as their agent. This type of payment is known as a 'disbursement' for VAT purposes.

Before you treat a payment as a disbursement for VAT purposes, you'll need to make sure all of the following 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 additional to whatever you're billing your customer for doing yourself.

It is usually only an advantage to treat a payment as a disbursement for VAT purposes if the supplier did not charge VAT on it, or if your customer cannot reclaim the VAT.

Example

The invoice issued from your company was for £10,000 net, and it also showed incurred hotel costs of £120 (including VAT) and also a purchased a website domain on behalf of the client for £150.

Work done	£10,000.00
Expenses	£120.00
Net Invoice	£10,120.00
VAT at 20%	£2,024.00 (£2,000 VAT on work done and £24 on hotel expenses)
Disbursement	£150.00
Gross Invoice	£12,294.00

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