What is VAT disbursement treatment and when does it matter to solicitors and their clients?

This document supplements the Law Society Guidance (see the link overleaf) to help solicitors to understand and decide how to treat disbursements for VAT purposes. The diagram and key below illustrate the options and their significance, and the factors overleaf assist solicitors in making the necessary categorisation.

Key

1. **Non-disbursement treatment.** The Supplier makes a supply to the Solicitor. The Solicitor passes that supply on to the Client as part of the Solicitor’s supply of legal services to the Client. The whole value of the Solicitor’s supply to the Client will usually be a standard rated taxable supply for VAT purposes (even if the supply from the Supplier does not attract VAT).

2. **Disbursement treatment.** The Supplier makes a supply directly to the Client (even though still paid via the Solicitor). If that supply attracts VAT, the Client is ultimately in a similar position to non-disbursement treatment. If the supply from the Supplier does not attract VAT, the Client can benefit from that.

3. **Clients who can recover VAT.** Where the Client is a VAT registered business it will in many cases be able to recover any VAT incurred by it on supplies made to the business. In such cases and ignoring cash flow, disbursement treatment will not be beneficial for such businesses.
Factors in favour of VAT disbursements treatment

Your Client

You agree in writing with your client that:

(a) the client requests or authorises you in advance to obtain and pay for the supply from the third party on their behalf as their agents,

(b) you will notify the supplier of the client’s name on whose behalf you will obtain and pay for the supply, and

(c) that you will charge the client the exact amount paid to the third party for the supply.

The Supplier

• The supplier is made aware (with your client’s permission) that the service is being provided to your client.

• Your client is responsible for paying the third party.

The Supply

• The third party supply is clearly additional to the supplies which you make to your client on your own account.

• It may be necessary for disbursement treatment that you act as “no more than a postbox” in passing on the supply to your client without comment or analysis.

• It may help if the supply is confidential and/or only obtainable by your client (e.g. certain medical records).

Receipt of Supply

• Your client actually receives the supply from the third party.

• In the case of a report or search result, they are sent to your client either by you or by the supplier.

Your Invoice

• Your outlay is separately itemised on your invoice to your client as a disbursement.

• You recover from your client only the exact amount which you paid the third party.

Please read the Law Society’s Guidance on VAT on disbursements here: