HMRC - VATSC03300 - Basic Principles And Underlying Law: Supply For Consideration

Since its introduction in 1973, VAT has been chargeable on supplies of goods and services. Under the Finance Act 1972, which introduced VAT into the UK, any supply of goods, whether for a consideration or not, was a supply within the scope of VAT. However, a supply of services was only a supply for VAT purposes if it was made for a consideration.

In 1978, the EC 6th VAT Directive introduced consideration as an essential ingredient for both supplies of goods and supplies of services. Under Article 2, The supply of goods or services effected for a consideration was to fall within the scope of VAT. UK VAT law was amended (via the Finance Act 1977) to give effect to the provisions of the EC 6th VAT Directive (now the Principal VAT Directive 2006/112) and recognise the importance of consideration. The VAT Act, Section 5(2)(a) now reflects this:

“supply” in this Act includes all forms of supply, but not anything done otherwise than for a consideration

Thus where the term supply appears in the text of the law for example Section 4(1) (scope) it will mean a supply for a consideration.

There are several ways by which a supply can be made, the most common being the transfer of ownership or the transfer of possession of goods, or the provision of a service by one party to another. The term “supply” is not defined in VAT law, but has been discussed sufficiently in tribunal and higher court cases to enable specific guidance about its meaning to be given.

Consideration, dealt with in detail in VATSC30000, is a more complex concept than it may appear. The term does not refer only to money. Consideration, in VAT terms, is used in a very wide sense covering anything which might possibly be done, given or made in exchange for something else. For example, it might be something exchanged in a barter arrangement, such as in a part exchange or where a service is performed in return for another service, or it may simply be a condition imposed upon the making of the supply. As long as there is a direct link between the supply made and the consideration given, and the consideration is capable of being expressed in money there is a supply for VAT purposes.

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