HMRC - VATSC13000 - Payments To Buying Groups

Traders often join together to form buying groups (also referred to as retail consortia or trade associations) for the purpose of negotiating lower prices from manufacturers and suppliers. These groups do not generally take title to the goods as their role is simply to order required products for their members at the best possible price.

The agreements between buying groups and suppliers vary, but a common feature is that the buying group will ensure the products are prominently displayed by its members. In return, the suppliers make periodic payments to the buying group which are normally based on the level of sales.

Liability of the payments

The payments made by suppliers are often referred to as “overriders”, “discounts”, “rebates” or “bonuses”. Some buying groups mistakenly treat the payment as discounts on the price of the products bought and adjust the VAT accordingly.

However, since the buying group does not take title to the products, the payments cannot be treated as discounts. Instead, the payments should be seen as consideration for a taxable supply of services by the buying group - either of introducing the supplier to a larger customer base or arranging promotions on the supplier’s behalf - this is supported by the following tribunal case.

Once the buying group has received these payments it usually distributes the bulk of the proceeds to its members. This distribution is outside the scope of VAT as a distribution of profits.

Landmark Cash and Carry Limited (1980)( LON/79/41)

Landmark was established by a number of cash and carry companies and its purpose was to “improve the profitability of its members”. One of the ways it did this was by organising promotions in co-operation with manufacturers. The manufacturers contributed to the cost of the promotions and made additional “overrider” payments to Landmark based on the sales of the promoted products.

Landmark failed to account for tax on these payments as they considered them to be discounts. The tribunal rejected this view and found that in reality the payments were consideration for Landmark’s supply of introducing the manufacturers to larger markets.

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