HMRC - VATSC35000 - Payments - The Issue

On the face of it, payments of compensation or damages are not consideration for supplies for VAT purposes. This is because they invariably amount to financial settlement of losses caused by breach of agreement or infringement of rights rather than the provision of goods or services. However, there are circumstances when such payments are consideration for taxable services by the recipient of the payments.

When is compensation consideration and when is it not?

This is not always an easy question to answer but there have been case precedents that give some assistance. The main precedents are in the areas of:

contract termination (VATSC35400),

liquidated damages (VATSC35600),

lease agreements for moveable goods (VATSC35600),

breach of contract (VATSC35600).

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