HMRC - VATSC36100 - Disputes Involving Claims For Payment For Supplies Made

Where a dispute takes place between supplier and customer - for example over the price charged for the supply or for poor standards of workmanship - the customer might withhold payment. As a result, litigation can arise, with the supplier pursuing the moneys due.

The issue in such cases might be settled either by a court decision or an out-of-court settlement. In either case, where the customers pays in satisfaction of the amount claimed by the supplier, this sum is consideration for the supply made and liable to VAT if the supply in question was taxable.

No tax is due, however, on any interest awarded or agreed because of the late payment. This is outside the scope of VAT as compensation for payment being delayed.

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