HMRC - VATSC53600 - Deposits

Deposits are generally taxable as described in VATSC42000. The circumstances where they are not consideration for a supply are described here.

Forfeit deposits

Forfeit deposits are not consideration for a supply because they are a payment for damages. One of the most common examples is a deposit for a hotel room that is not used. Although the payment would originally be for advance consideration for the supply of the room and would be taxable were the room subsequently taken, if the booking is cancelled the payment becomes compensation/damages for breach of contract and is therefore outside the scope of VAT.

However, see VATSC42000 for an example where there is a supply made and VATSC34000 for more details on compensation.

Security deposits

A deposit taken as security, for example against the safe return of goods on hire, is not consideration for a supply. Typically the terms of the contract will specify that the deposit is refundable subject to the safe return of the goods.

In the event of the deposit being forfeited, either in total or in part, the payment is outside the scope of VAT because the customer has broken the terms of the contract by damaging the goods. The payment is therefore neither additional consideration for the original supply nor consideration for an extra supply of goods or services.

Returnable containers

It is common practice in some industries for a charge to be added to a supply of goods for the container until it is returned, for example the keg with beer.

It is important to establish exactly why the charge has been raised. If it has been raised purely to ensure the safe return of the container, and the charge is refunded on its return, this can be treated in the same way as a security deposit.

If the charge has been raised to cover the loan hire or use of the container then the charge represents consideration for a supply of services, even if is refundable when the container is returned.

If there is any doubt over what is supplied, it will be necessary to obtain a copy of the relevant agreements to establish the basis of the charge.

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