HMRC - VATSC73000 - “Option” Payments

Some final payments, or payments due at the end of the term of the agreements, are referred to as option payments where the customer has an option whether to purchase or not. These payments are often very small and are such that it is very unlikely that the customer would not take up the option. Thus in these circumstances, it is clear that in the normal course of events title will pass or the agreement expressly contemplates that the customer will purchase the goods. Therefore there is a single supply of goods at the outset.

You may encounter option payments which are not small. Agreements providing for substantial option payments are becoming increasingly common. In this event you should again ask the question - will ownership pass in the normal course of events? In most cases we would see the inclusion of the option to purchase as indicative of an intention on the part of the buyer to purchase the goods, even where this final payment may be significantly more than the preceding instalments. Regardless of the scale and structure of the payments, however, if the agreement expressly contemplates that property will pass at some time in the future then, again, at the outset there is a supply of goods.

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