VAT Public Clarification
Disbursements & Reimbursements

Issue

Article 1 of the Federal Decree-Law No. 8 of 2017 on Value Added Tax ("VAT Law") defines consideration as “all that is received or expected to be received for the supply of goods or services, whether in money or other acceptable forms of payment”.

In commercial transactions, a person may incur expenses and subsequently recover such expenses from another party. The VAT treatment of the subsequent recovery of expenses depends on whether the recovery is tantamount to a “disbursement” or “reimbursement”.

This Public Clarification discusses the VAT principles for differentiating between a disbursement and a reimbursement, and the VAT treatment that should be applied to a disbursement and reimbursement of expenses.

Summary

The term “reimbursement” refers to the recovery of expenses that you incur as a principal. The term disbursement, on the other hand, refers to the

ملخص

يشير مصطلح "تعويض المصروفات" إلى استرداد النفقات المتصلة من قبلك كموكل. من جهة أخرى، يشير مصطلح "تعويض المدفوعات" إلى استرداد المبالغ المدفوعة نيابة عن شخص آخر.
recovery of payments made on behalf of another person.

While a disbursement of expenses is out of scope of VAT, reimbursement of expenses falls within the scope of VAT.

**Detailed discussion**

The first step to determine whether a recovery is a disbursement or reimbursement is to establish whether you have acted as a principal or an agent in purchasing the goods or services.

Where you have acted as an agent, the recovery would generally amount to a disbursement. A disbursement does not constitute a supply and is, therefore, not subject to VAT. For example, a disbursement is a payment that your business makes on behalf of a client but which you later invoice the client for.

On the other hand, where you have acted as a principal, the recovery would generally amount to a reimbursement. A reimbursement is considered to be a part of consideration for the supply and follows the same VAT treatment as the main supply.

**Principles for Disbursement:**

The following principles will help you determine whether the recovery of an expense from another person.

While a disbursement of expenses is out of scope of VAT, reimbursement of expenses falls within the scope of VAT.

بالرغم من أن تعويض المدفوعات يقع خارج نطاق ضريبة القيمة المضافة إلا أن تعويض المصروفات يقع ضمن نطاقها.

شرح تفصيلي

تتمثل الخطوة الأولى في تحديد ما إذا كان الاسترداد هو تعويض مفوعات أم تعويض مصروفات، بأن يتم تحديد ما إذا كنت قمت بالصرف بصفة موكول أم وكيل عند شراء السلع أو الخدمات.

فإذا كنت قد تصرفت كوكيل، فإن الاسترداد سيكون عموما بمثابة تعويض مفوعات. إن تعويض المدفوعات ليس ناصراً لغايات ضريبة القيمة المضافة وبالتالي، لن يكون خاضعاً لضريبة القيمة المضافة. على سبيل المثال، يكون تعويض المدفوعات بمثابة مبلغ تدفعه أعمالك نيابة عن المورد، ومن ثم تقوم بإصدار فاتورة بقيمتها للعميد ومطالبته بسدادها.

من جانب آخر، إذا كنت قد تصرفت كموكل، فإن الاسترداد سيكون عموماً بمثابة تعويض مصرفات. يعتبر التعويض جزءًا من مقابل التوريد ويخص نوات المعاملة الضريبية للتوريد الرئيسي.

**مبادئ تعويض المدفوعات:**

**استنادًا إلى المبادئ الأتية في تحديد ما إذا كان استرداد النفقات من طرف آخر يستوفي شروط التصنيف كتعويض:**

**ملاحظات:**
party satisfies the conditions for being classified as a disbursement:

- The other party should be the recipient of the goods or services;
- The other party should be responsible for making the payment to the supplier;
- The other party should have received an invoice or tax invoice, as the case may be, in its own name from the supplier;
- The other party should have authorized you to make the payment on his behalf;
- The goods or services paid for should clearly be additional to the supplies you make to the other party;
- The payment should separately be shown on the invoice and you should recover the exact amount paid from the supplier, without a mark-up.

For example, Company A procured group medical insurance from a local insurance company and received an invoice directly from the insurance company. Company A requested Company B to make the payment on its behalf. The subsequent recovery of the amount by Company B from Company A will amount to a disbursement, and would not be subject to VAT. Company A should receive a Tax Invoice addressed to it from the insurance company, and should
recover the input tax through its UAE VAT return, subject to the normal input tax recovery rules.

**Principles for reimbursement:**
The following principles will help you determine when a recovery of expense amounts to a reimbursement:

- You should have contracted for the supply of goods or services in your own name and capacity;
- You should have received the goods or services from the supplier;
- The supplier should have issued the invoice in your name and you are under the legal obligation to make payment for it;
- In case of goods, you should own the goods prior to making the onward supply to the other party.

For example, Company A entered into a contract with Company B to provide marketing services. The contract stipulated that Company A would be eligible to reimburse the expenses from Company B. Company A incurred the expenses in its own name and subsequently recovered the amounts from Company B as per the terms of the contract. The recovery of expenses from Company B would follow the same VAT treatment as that of the main supply.
The principles stated above should be used as indicators to analyze whether a recovery of expense amounts to a reimbursement or disbursement. The taxpayer, should, however consider all the facts and circumstances of the transaction holistically to arrive at a decision.

This Public Clarification issued by the FTA is meant to clarify certain aspects related to the implementation of the Federal Law No 7 of 2017 on Tax Procedures, Federal Decree-Law No 8 of 2017 on Value Added Tax and their Executive Regulations.

This Public Clarification states the position of the FTA and neither amends nor seeks to amend any provision of the aforementioned legislation. Therefore, it is effective as of the date of implementation of the relevant legislation, unless stated otherwise.