

Contractor guide to the VAT treatment of umbrella expenses incurred in the Eurozone

Umbrella company contractors working on client projects that require trips to Eurozone countries are likely to incur business expenses in euros for subsistence, accommodation and travel, which can be recharged to the client.

According to Rob Crossland of contractor umbrella solutions provider **Parasol**, the VAT treatment of expenses incurred in euros is straightforward and should not leave the contractor out of pocket.

"Because umbrella company contractors are full-time permanent employees like any other, they are entitled to reclaim in full any legitimate expenses they incur," explains Crossland. "And as employees they should not expect to be left out of pocket as a result of VAT treatment."

And Crossland warns contractors not to embark on expensive overseas trips without having confirmed in writing exactly who is expected to pay for the trip: "Most UK based contractors don't tend to be able to recharge their expenses and I've seen numerous examples of contractors being sent abroad to complete tasks at their own expense. Contractors should confirm with the client in writing that all expenses can be recharged before setting off."

Recharged expenses incurred in sterling

Crossland believes a key to understanding how this all works is to remember how things work when claiming sterling expenses incurred in the UK.

"Let's say a contractor has incurred £120 in VAT-rated expenses on subsistence and hotels, and has the VAT receipts for them, then these can be recharged to the client or agency," says Crossland. "The umbrella company would invoice the agency or client for the contractor's fees and expenses of £100 plus VAT of £20, a total of £120." [Note: at the time of writing, UK VAT is 20%]

He continues: "The umbrella company pays HMRC the VAT element of £20 and claims back £20 by using the contractor's VAT receipts, leaving the umbrella company in a 'net zero' position. The contractor should be paid the full £120 that they paid out on expenses."

For expenses that are zero rated, such as UK train travel, VAT is added to the value of the ticket. So if a contractor claims for a £5 train ticket, the umbrella company invoices the agency or client for £5 plus £1 in VAT. The £5 goes to the contractor and £1 is paid to HMRC.

How it works in euros

"VAT treatment of expenses incurred in euros is similar to sterling expenses, but there are some important distinctions and the local VAT rate is applied," explains Crossland. "The first thing the umbrella company's finance team would check is the EU country of origin and then the VAT rate in force, which varies considerably from country to country. As in the UK, a proper VAT receipt should also include details of the local sales tax in force."

So, if a contractor incurs €115, and the local sales tax is 15%, the next step is to convert the amount into sterling. According to Crossland, if the contractor paid using a credit card the rate used in the statement would be accepted and applied, or a published source **as allowed by HMRC** would be used.

"To keep things simple, if we assume the rate is one euro to a pound, the umbrella company would invoice the agency or client for the gross value of the expenses incurred in Euros and then add VAT at the standard rate, which in this example would be £115 plus VAT at 20%, £23 which is £138."

Contractor reimbursed in full – umbrella 'net zero'

When paid, the umbrella would receive £138 from the client or agency of which it would pay the VAT element, £23, to HMRC and the full £115 to the contractor, so the contractor is not out of pocket and the umbrella company is once again in a net zero position.

Crossland says: "The key difference in treatment of euro expenses versus sterling is that the contractor's receipt in euros cannot be used to claim back any VAT, which is why the umbrella company invoices for VAT on top of the gross euro expense.

"The agency or client may have a mechanism for claiming back the VAT incurred in the Eurozone, but the umbrella company contractor does not have to worry about the next stage of the VAT treatment of euro expenses."

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