

The complaint

Mr J complains that Santander Consumer (UK) Plc, trading as Volvo Car Financial Services (“VCFS”) were unreasonable to charge VAT on a Road Fund License (RFL) increase that they passed on to him.

What happened

In November 2020 Mr J took receipt of a new car and financed it through a hire agreement with VCFS. The agreement explained that any increase to the RFL would be paid by VCFS, and the consumer would then be invoiced for the increase. Mr J says VCFS were wrong to add VAT to that invoice.

VCFS said VAT was applicable as the hire agreement as a whole was subject to VAT.

Our investigator didn’t think VCFS had been unreasonable, but Mr J did. He said VCFS had added VAT to something that was exempt from VAT. He asked for a final decision by an ombudsman.

What I’ve decided – and why

I’ve considered all the available evidence and arguments to decide what’s fair and reasonable in the circumstances of this complaint.

It isn’t for this service to clarify whether VCFS have applied VAT correctly. That’s a question that could be considered by the HMRC or referred to a tax tribunal. Mr J has explained that although the amounts of VAT involved are small, this a matter of principle. This service helps to resolve disputes between consumers and financially regulated businesses, its purpose is not to resolve matters of principle and, again, they may best be considered by a court. I can, however, consider whether VCFS have been reasonable here.

There’s no dispute that the finance agreement allows VCFS to pass on RFL increases. VCFS have done that each year since inception of the deal.

I’ve looked at the government guidance <https://www.gov.uk/guidance/vat-costs-or-disbursements-passed-to-customers> and that seems to suggest that if the charge is a ‘disbursement’ it can be VAT free. There’s a list of what can be considered ‘disbursements’ but it seems a disbursement generally applies when a charge is being passed on and when it is a cost the consumer, and not the business, is liable for.

That would appear to support Mr J’s position, as he was responsible for the charge, and the business are merely passing that charge on to him.

But VCFS have explained that VAT has been applied because the lease agreement as a whole is subject to VAT. That seems reasonable to me as the ability to pass on RFL increases is a term of the hire agreement and the hire agreement is subject to VAT.

I don’t think VCFS have been unreasonable in the way they have handled Mr J’s complaint.

They've provided a response in good time and the response explains why they have charged VAT on the RFL increases. They've provided reasonable reasons as to why VAT would be attracted to such payments.

I'm not asking them to take any further action but if Mr J continues to dispute the charge, he may wish to consider discussing the matter with the HMRC or taking his case to the courts.

My final decision

For the reasons I've given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr J to accept or reject my decision before 2 December 2024.

Phillip McMahon
Ombudsman