

How does the VAT reverse charge on expenses work?

[Glossary](#)[VAT](#)

Last updated 10 October 2025

When you buy software or services from overseas suppliers, like Google, you might need to apply the VAT reverse charge, even when they haven't charged you VAT.

This guide explains when it applies, what it means, and how to record it correctly in Mighty.

What is the reverse charge?

Normally, UK suppliers add VAT to their invoices and send it to HMRC. Providing they don't have a UK HQ, overseas suppliers don't charge UK VAT but if you're VAT-registered, HMRC still wants that VAT accounted for.

So, you "self-charge" VAT instead. Technically, you record both the VAT you'd have paid (output VAT) and the VAT you can reclaim (input VAT) on your VAT return. However, you don't have to do this admin yourself, just select "Reverse Charge" as the VAT category, and we'll generate the entries in your VAT return. These two entries cancel each other out, so it's purely a reporting adjustment, not an extra cost.

When to select "Reverse Charge" in Mighty

Choose Reverse Charge as the VAT rate when all of the following apply:

- You're VAT-registered (if not, this entire article isn't relevant!)
- The supplier is based outside the UK and hasn't charged you UK VAT
- You're buying services, not goods (e.g. software, ads, hosting, consultancy)

Common examples include Google Workspace, AWS, and HubSpot. Many other companies you might think are overseas actually have a UK subsidiary, or will still charge UK VAT unless you provide your VAT number. Adding your VAT number usually tells them you're a business customer, so they stop charging VAT and the reverse charge applies instead.

How it affects your VAT return

If you record a £100 reverse charge expense:

Box 1 (VAT due on sales): £20

Box 4 (VAT reclaimed on purchases): £20

Box 7 (Net purchases): £100

Boxes 1 and 4 offset each other, so there's no cash impact but it ensures this is reported to HMRC correctly.

What you'll see in Mighty

When you choose the **Reverse Charge** VAT rate:

- The expense total stays exactly as billed by your supplier (no VAT added).
- You'll see a note such as:

"No VAT charged, but a reverse charge of £20 will be applied in your VAT return."

Mighty then automatically handles the VAT return entries.

Selling to overseas clients?

If you're invoicing clients outside the UK, the VAT rules work differently - see [here](#) for our full guide.

To summarise:

- Use **Reverse Charge** for overseas *services* when you're VAT-registered.
- It keeps your VAT return correct without changing what you pay.
- Mighty records the adjustment automatically, so you stay compliant with HMRC.

If you have any questions with this, please contact your dedicated accountant or support@mightyaccounting.com.

Read this guide online (always the latest version): <https://app.mightyaccounting.com/Knowledge/article/vat-reverse-charge>