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VAT on extended car warranty

The finance ministry has accepted as a precedent a Supreme Tax Court ruling that a payment to a motor car dealer for an extended warranty is subject to VAT.

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In February 2010, the Supreme Tax Court departed from its previous case law in holding a charge by a motor car dealer for additional warranty cover allowing the car owner the choice between having the dealer carry out any necessary repair work and appointing another workshop at the dealer's expense is subject to standard rate VAT. Previously, the charge was considered tax-free as a guarantee or insurance. The finance ministry has now issued a decree calling for this judgment to be followed generally, and amending its VAT Implementation decree accordingly. However, the decree allows dealers a period of grace in that no objection will be raised to their continuing to follow the more favourable old law up to December 31, 2010.

The decree distinguishes between an extended warranty and VAT-free insurance broking. The dealer acts as a broker if the customer becomes the insured person with a direct claim on the insurance company. In this case, any repair under the warranty is a taxable service to be invoiced to the customer in the normal way. This also applies if - for simplicity - the insurance company settles the bill directly. Where the customer is offered the choice of turning to the dealer for the repair or turning to another workshop, with the cost then being met by the dealer or his insurer, he receives a single service. This is subject to VAT as the warranty element is now seen to take precedence over the insurance aspect. If the repair is done by the dealer, there is no need to issue an invoice as no VAT is due (the repair is not "turnover" but the fulfilment of a duty). The input tax associated with the repair remains deductible. A third party doing the repair will invoice it to the customer with VAT. (AM)

Schlagwörter

Extended car warranty, VAT-free, guarantee insurance, insurance broking, motor car dealer