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Purchase of doubtful debts VAT-free

The finance ministry has modified its VAT Implementation decree to follow ECJ and Supreme Tax Court case law to the effect that the purchase and collection of doubtful debts (non-performing loans) is VAT-free in contrast to the purchase of receivables for collection.

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On October 27, 2011, the ECJ held the purchase of doubtful debts (non-performing loans) not to be a business activity and therefore free of VAT (case C-93/10 GFKL). The Supreme Tax Court followed this case and the finance ministry has now amended its VAT Implementation decree accordingly. A doubtful debt in this connection is one that has not been serviced for 90 days past the due date for interest or capital repayments (minor deficiencies excluded). A loan is also doubtful in this sense if immediate repayment has been demanded, or where the creditor is entitled to do so. Since the purchase of a doubtful debt is not a business activity, no input tax on the costs of purchase or collection can be deducted. This position contrasts with the purchase of a valuable debt as a collection service, or to relieve the creditor of business risk. In this latter case, the service is subject to VAT, the margin between the purchase price and the redemption value being the gross consideration including VAT.

Schlagwörter

Non-Performing Loans (NPL), doubtful debts