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# Retail financing compensation payments within the motor trade subject to VAT

**The finance ministry has decreed that payments to compensate retail financing subsidies in the motor trade should be subject to VAT as market support services.**

It is customary in the motor trade to offer retail customers instalment payment terms at a very low rate of interest, or sometimes even interest-free. The customer buys the car from the dealer and the finance is provided by a captive bank belonging to the manufacturer. The interest subsidy (the difference between the agreed charge in the instalment payments and the current market rate) is split between manufacturer and dealer in a manner set out in the dealer's franchise but of no concern to the customer. Manufacturer and dealer pay their respective shares to the bank. The finance ministry has declared that the payments are to be regarded henceforth as being for market support services, and are therefore to be subject to standard rate VAT. As it stands, the decree is to have immediate effect. However, no objection will be taken to continued treatment of the interest subsidies as VAT-free payments by third parties for financial services up to December 31, 2011, provided all parties involved take the same approach.

**Keywords**

low interest, motor trade