

VATR 52 (Govt Gazette No.83 of 18 August 2012)

Facts

XYZ Ltd is a trading company making sales either on cash basis or hire purchase terms. Its assets include hire purchase debts (HP debts).

XYZ Ltd proposes to dispose of its total HP debts to a bank (proposed transaction). Subsequent to the proposed transaction, the HP debtors will settle their dues to the bank. In return for the assignment of the debt to the Bank, XYZ Ltd will receive cash in two instalments, the last instalment to be settled on the satisfactory performance of the HP debt portfolio based on a set of predetermined criteria.

Point at Issue

Whether the assignment of the HP debts by XYZ Ltd to the bank falls within the ambit of 'factoring', which is an exempt supply under the VAT Act?

Ruling

It is confirmed that the assignment of HP debts to the bank fall within the ambit of 'factoring' and the consideration for the exempt supply by the bank would be the difference between the total debts assigned and the payment made by the bank to XYZ Ltd.