HMRC - VATSC28000 - Free Loan Of Business Assets

VATA 1994, Schedule 4, paragraph 5(4) deems the temporary application of business assets to a non-business use to be a supply. This does not apply where assets of the business are freely lent in the course of the lender’s business. These loans are outside the scope of VAT. For a loan to qualify as free there must be no obligation on the recipient to make any payment in money or in kind. The expectation that commercial goodwill will be encouraged by the loan does not preclude it from being accepted as free. For a summary of when output tax is due on the temporary application of an asset to private and other non-business use see the table in VATSC24000.

Examples of free loans

The following are typical examples of free loans for the lender’s business purposes which are outside the scope of VAT:

vans and other equipment lent by a trader to a subcontractor for use in connection with work under the subcontract

goods lent free of charge to a customer as a temporary replacement while the customer’s goods are being serviced or repaired

equipment lent free of charge by an employer to an employee (for example protective clothing) for use in connection with the employee’s work

machinery lent by a manufacturer free of charge to a user in connection with development work. The user must have a liability to return the machinery to the manufacturer if the latter so requires, even though it may be understood that the person to whom the goods are lent will keep them in use until they have reached the end of their useful life

bar equipment lent by a brewer to licensees

storage and dispensing equipment lent by an oil company to garages

signboards and other equipment lent by manufacturers to garages

sacks lent by a wholesaler to farmers for potatoes

coffee making and similar machines lent by suppliers of tea, coffee and the like to regular trade customers for their product, provided there is no variation in the price charged for the beverage to take account of the free loan

trophy and challenge cups given temporarily (for example for a year) to the winner of a race or competition.

However, if the loans are made for the private use of the lender or another party, there is a supply under VAT Act 1994, Schedule 4, paragraph 5(4) because the lender or the other party has become the final consumer. Insignificant private use can be ignored.

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