HMRC - VATSC74000 - Whether Supplies Are Goods Or Services: Transfer Of Hire Purchase, Conditional Sale And Romalpa Agreements

Block discounting

To improve cash flow, dealers may assign to a financial institution, in return for immediate cash payment, their rights under hire purchase and conditional sale agreements. Such assignments are commonly known as block discounting. If property in the goods passes to the finance house this would normally be a supply of goods. But this would mean that the dealer makes two supplies of the same goods, the first to the customer and the second to the finance house. Since finance houses are, in the main, partly exempt much of the tax on the second supply would not be recoverable as input tax by the finance house.

Article 5(4) of the VAT (Special Provisions) Order 1995 (SI 1995/1268) prevents this by providing that block discounting is treated as neither a supply of goods nor a supply of services. For guidance on the block discounting of rental agreements see VATSC74600.

Recourse agreements

The terms of a block discounting agreement or an agreement between a finance house and a dealer from whom it buys goods outright prior to a hire -purchase sale may include a recourse agreement. Under a typical agreement, if the customer defaults the finance house re-assigns property in the goods and the rights under the hire-purchase or conditional sale agreement to the dealer. The dealer must then pay the outstanding balance on the instalments to the finance house. Assignments under recourse agreements are supplies of goods and the block discounting relief does not apply.

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