HMRC - VATSC74600 - Whether Supplies Are Goods Or Services: Block Discounting Lease Rental Agreements

Some major finance houses block discount TV and video/DVD rental agreements with high street dealers. This entails the dealer selling a batch of rental agreements to the finance house for an agreed sum of money. The usual purpose is to provide the dealer with an injection of capital to enable him to purchase further equipment for rental hire and expand his customer base. In turn, the rental agreements resulting from this new business might also be “block discounted”. The finance house benefits by the difference between the lump sum paid to the dealer and the total rental it will receive over the life of the “block discount” arrangement.

Previously, we have treated these transactions as the exempt assignment of debts by the retailer to the finance house and have seen the retailer as continuing to make the supplies of rental hire to the customer in the normal way.

Change of liability

As a result of legal opinion and after consultation with the Finance and Leasing Association (FLA), we agreed that, from 1 December 1992, all transactions involving the block discounting of hire rental agreements where title in the ownership of the goods passes from the dealer to the finance house, should bear VAT at the standard rate as a supply of goods.

This means that the finance house becomes the lessor for the period of the block discount which is usually 3 years, and should account for output tax on the rentals received under the hire agreements block discounted from 1 December 1992. In practice, the dealer will continue to receive the rentals from his customers and will pass them to the finance house who, in turn, will invoice the dealer for the total monthly sum.

Exceptions to the above

Where the dealer sells agreements which do not involve title in the ownership of the goods passing to the finance house, it is an assignment of debts which remains “exempt” from VAT.

Exempt assignments can be distinguished from standard-rated block discount transactions as the agreement for the latter will bear a novation clause which is simply a formal notification that title of ownership in the rental equipment has passed to the finance house.

Goods sold back to the dealer

Exceptionally, we have agreed with the FLA a uniform valuation figure of £5.00 for each television set or video recorder sold back to the dealer during, or at the end of, a block discounting period as discussed under Block discounting in VATSC74000.

Self-billing

The finance houses would prefer to be approved for self-billing for the initial discounted payment to dealers rather than rely on the latter to invoice in the normal way. This may give rise to requests for approval.

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