HMRC - VATSC77000 - Further Guidance: Stock Financing

This is an arrangement whereby traders obtain finance using their stocks. Such arrangements mainly occur in the area of commodities, but you may encounter them with other traders. The procedure works by the owner of some stock (trader A) entering into a contract to sell the goods to another trader (trader B) but at the same time completing a further contract to buy back the goods at a specified future date for a specified higher sum. Under this scheme trader A receives payment for the goods from trader B at the time of the first contract and later repays trader B when he buys back the goods under the second contract. The net effect is that trader A receives finance during the period between the two contracts and for this reason the buy back price is higher than the selling price, the extra being equivalent to interest.

Although the purpose of this agreement is to obtain finance, it is actually two separate contracts and because the goods are never allocated to the contracts, the supplies made are supplies of services. These supplies are standard-rated whatever the underlying goods (because these services are not covered by either the zero rate or exemption schedules) and VAT is due from each trader on the full contract value of the unallocated goods he supplies.

The HQ branch with policy responsibility for this is VAT Deductions and Financial Services Team

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