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VAT Treatment on Sale of Collateral for Loan Repayment

On 19 August 2025, the Revenue Department issued ruling regarding the VAT implications of selling collateral in loan enforcement cases. The ruling clarifies that when a company provides loans secured by vehicle registrations and a borrower defaults, the company may auction the collateral to recover the outstanding debt.

The proceeds from such auction sales, applied toward repayment of the borrower's debt, are not subject to Value Added Tax. The Department reasoned that such transactions are part of the company's debt enforcement activities and do not constitute a sale of goods or provision of services in the ordinary course of business.

The company, classified as conducting a financial business similar to a commercial bank, is subject to Specific Business Tax on its lending income, but not VAT on collateral enforcement. Additionally, the company may act as an auction agent without charging a service fee, and this waiver does not trigger any VAT liability, since the auction is incidental to debt recovery.

This ruling provides clear guidance for financial institutions and lending companies that proceeds from enforced collateral sales used to settle borrower obligations are outside the VAT system, emphasizing that documentation of loan agreements and auction records is essential to support the VAT treatment.

Should you have any question, please do not hesitate to contact us via info@bgloballaw.com