

VAT ON SUPPLY OF WARRANTY REPAIR SERVICES



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What are Warranty Repair services?

Assurance from the manufacturer to buyers that if goods not meet expected standards or fail to perform during a specified time period, they would cover the repair under the supply of a warranty.

This repair services is known as warranty repair services.

Is there a separate consideration for Warranty Repair services?

No separate consideration, where it is performed under a warranty period. The warranty is generally issued together with the supply of the goods, for a single price. Nonetheless, there may be recovery of costs incurred under the warranty repair services that may constitute to be consideration for a taxable supply.

Why would costs incurred be recovered and from whom?

From a supply chain perspective, there is a back-to-back supply of warranty services from the manufacturer to the distributor and subsequently, from the distributor to the end customer.

However, in most cases, these services are performed by the distributor on behalf of the manufacturer. As the distributor is merely fulfilling the manufacturer's obligation, it recovers from the manufacturer the costs incurred towards the warranty repair services.

What is the VAT treatment for recovery of costs under Warranty Repair services in different Jurisdictions?

The tax authorities of Bahrain, Singapore and the UK have released specific guidance on this, indicating that recovery of expenses in relation to said services are out of scope of VAT /GST (provided that it is recovered without any margin).

The main premise for the out of scope tax position is that the costs being recovered by the distributor are already embedded into the original sales price by the manufacturer when supplying the goods with warranty to the distributor and the subsequent recovery of warranty cost by the distributor from the

manufacturer does not constitute as a supply under the VAT law. The National Bureau for Revenue (NBR), Bahrain released a public clarification on "Warranty repair services" (reference: VAT/PC/20/1) adopting the said view.

NBR considers that warranty repair services are not separate supplies for VAT purposes where VAT has previously been paid on the warranty issued when the goods were sold.

This applies where the cost of the warranty forms an integral component cost element of the sales price of the goods:

- a. From the manufacturer to the distributor, and thereafter
- b. From the distributor to the customer



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Based on the above, a reimbursement received by the distributor from the manufacturer relating to the costs incurred by the distributor in providing the warranty repair services is out of the scope of VAT. This applies where the distributor is reimbursed solely for the exact cost of the repairs incurred by him in providing the repair services without adding any margin.”

The Inland Revenue Authority of Singapore (IRAS), Singapore has also issued clarification on warranty repair by distributors who seek compensation from manufacturer for the costs of repairs made under warranty.

Her Majesty’s Revenue and Customs authority (HMRC), United Kingdom published an internal manual on ‘VAT Supply and Consideration’ (reference: VATSC06200) with respect to manufacturers’ warranties.

In view of the above, can we conclude the supply of warranty services to overseas Manufacturers is out of scope of VAT in UAE as well?

Although in some Jurisdictions it is commonly considered that recovery of expenses without markup incurred under warranty repair services are out of scope, the same may not be applicable as per the UAE VAT legislation.

An alternative view may be that the warranty repair services rendered by the distributor is a separate supply from the original warranty issued by the manufacturer. Although the distributor is performing the manufacturer’s obligation on his behalf, the recovery of expenses (even at cost) may be treated as consideration for a separate supply of services, as if provided by any third-party vendor.

In addition to the above, where the distributor performs warranty repair services on behalf of an overseas manufacturer, the recovery of expenses is likely to attract tax at 5% for UAE VAT purposes, as it would not qualify for zero-rating based on the below:

- The place of supply for services rendered in relation to goods is where the goods are located at the time of performance of the said services. As the goods would be located in the UAE at the time of repair, the place of supply would be in the UAE bringing the service in-scope of UAE VAT
- As per the UAE VAT Legislation, local suppliers may qualify to zero-rate their services where it is provided to a nonresident and the services are not in relation to ‘real estate’ or ‘movable personal assets’ situated in the UAE. Basis my experience, the Federal Tax Authority in the UAE interprets ‘moveable personal assets’ as inclusive of all tangible goods in which case the recovery of repair costs under warranty repair services would not qualify for zero-rating

