

## **Lay-byes don't trigger VAT**

Lay-bye agreements are common practice in businesses which trade in high value goods such as household artefacts and automobiles. In an effort to make such products affordable and appealing to the transacting public, business operators often resort to lay-bye agreements. The mechanics of a lay-bye sale are that the customer and the retailer enter into an agreement which imposes obligations and confers rights to both parties. The obligations of the customer are usually to make payments of the stated purchase price in instalments e.g., three instalments and the seller is obliged to reserve the specific item on sale for the first mentioned customer.

Common questions pertaining to lay-bye agreements usually relate to the VAT implications of the same. Thus, the purpose of today's article is to address the VAT implications on instalments made by a customer under a lay-bye agreement.

To address the question at hand, we must first look at the instalments. Instalments under a lay-bye agreement are technically '*deposits*' made for the ultimate payment of the intended goods. The VAT Act states that a sale under a lay-bye agreement occurs when the goods are finally delivered to the customer and that usually occurs when full payments are done. Therefore, a deposit paid in connection with the lay-bye is not a payment or consideration for the same. Consequently, monies which are not treated as a consideration for a supply do not trigger VAT. Furthermore, the VAT Act also states that, in case of a default by the client, a supply for lay-bye agreements occurs when the agreement is cancelled/terminated, and the seller retains any amount paid by the purchaser or recovers any amount owed under the agreement.

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