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BRIEFING

VAT on Credit Management after Loan Assignment

Takeaways from the Judgement of the General Court of the European Union in Case T-184/25 dated 17 June 2026

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The General Court of the European Union has confirmed that credit management services (servicing) provided by a loan originator to the transferee for consideration after it has transferred the underlying loans are not VAT-exempt under any of the financial services exemptions in Article 135 (1) (b) to (d) of the EU VAT Directive 2006/112/EC. For securitisation structures where the originator continues to service transferred loans this ruling raises significant questions regarding the VAT treatment of the servicing fee and, even where the fee is embedded in the purchase price. Affected parties should review existing and proposed transactions without delay.

Key Issues

1. The exemption for "management of credit by the person granting it" under Article 135(1)(b) does not extend to credit management services provided by an originator to the transferee after it has transferred the loans.

2. Neither the credit guarantees exemption (Article 135(1)(c)) nor the debts exemption (Article 135(1)(d)) provides an alternative basis for VAT exemption.

3. SPVs often make exempt supplies and therefore might not be able to recover input VAT, creating a potentially irrecoverable VAT cost in the structure.

4. Existing servicing fee arrangements, pricing assumptions, purchase price mechanics and documentation may need to be revisited.

The Underlying Case

In Case T-184/25 (*Veronsaajien oikeudenvalvontayksikkö v A Oy*), the Finnish Supreme Administrative Court requested a preliminary ruling from the European Court of Justice (ECJ) which was forwarded to the General Court of the EU on the VAT treatment of credit management services provided by a bank after it had sold its mortgage loans to a wholly owned subsidiary which was not part of the same VAT group.

The originating bank (A) sold a large volume of mortgage loans to its subsidiary (B) at market price following drawdown. All rights and obligations under those loans were transferred to B on assignment. Notwithstanding the transfer, A continued to manage the loans on behalf of B throughout their duration. This servicing included customer administration, rate and interest calculations, loan amendments and debt collection. A also managed the credit guarantees over the loans, which served as security for covered bonds issued by B. A invoiced B for these services on the basis of actual monthly costs plus an agreed profit margin.

While the Finnish tax authorities argued that A's servicing and guarantee management services did not qualify for any VAT exemption, the Finnish Supreme Administrative Court did not share such view but referred three questions to the General Court: whether those services were exempt as (i) management of credit by the person granting it (Article 135(1)(b)), (ii) dealings in credit guarantees (Article 135(1)(c)), or (iii) transactions concerning debts (Article 135(1)(d)).

The Court's Ruling

The General Court answered all three questions in the negative.

Article 135(1)(b): management of credit

The Court held that the exemption for "management of credit by the person granting it" refers only to credit management carried out in the context of the original credit relationship between the originating lender and the borrower. Once the originator has transferred the loans to a third-party transferee, the management of those loans no longer forms part of that original relationship, even where the originator continues to carry out the management itself. Services provided by the originator to the transferee for consideration constitute a separately taxable supply.

Article 135(1)(c): credit guarantees

The Court held that credit management services cannot constitute "dealings in credit guarantees or any other security for money" under Article 135(1)(c), even where the managed loans serve as collateral for bonds issued by the SPV. Article 135(1)(c) refers only to the management of credit guarantees by the person granting the credit, not to the management of the underlying credit itself.

Article 135(1)(d): transactions concerning debts

The Court held that credit management services do not constitute "transactions concerning debts" within the meaning of Article 135(1)(d). Transactions covered by that provision must involve an actual or potential

transfer of ownership of funds or fulfil the specific and essential functions of such a transfer, which credit management services do not.

Implications for Securitisation Structures with a German SPV

Under German VAT law, there has so far been a widely held view (supported by the applicable provisions of the German VAT Application Decree (*Umsatzsteuer-Anwendungserlass*)) that credit management services provided by an originator in a securitisation context are VAT-exempt as financial services.

For structures in which the servicing is supplied to a German-established SPV, or where the place of supply of the servicing is otherwise located in Germany, the VAT exemption previously relied upon under German law is now in doubt. The General Court did not decide on whether this only applied where the servicing fee is separately agreed or also where the servicing fee is not separately invoiced but is instead embedded in the purchase price of the transferred receivables. It is to be expected that any deemed servicing fee component within the purchase price would also fall within the scope of the ruling.

SPVs typically issue asset-backed securities, which constitute VAT-exempt supplies, and as a result generally cannot recover input VAT on costs they incur. If VAT becomes due on the servicing fee, the resulting VAT burden may be borne by the structure as an irrecoverable cost with potential consequences for cash flow, yield and ratings.

However, it is still unclear how the German tax authorities and/or the German legislator will react to this. In particular, it should be noted that the German VAT Application Decree historically takes a distinct approach to the exemption of credit management services in securitisation structures, with the result that the German tax authorities may take the view that the ruling (which was issued in the context of Finnish VAT law and a specific Finnish regulatory framework) does not directly affect the exemption currently applied under German administrative practice.

In addition, the structure in the case decided by the General Court involved a complete novation of the loan relationship, *i.e.* all rights and obligations under the loan agreements passed to the transferee, leaving the originator with no ongoing contractual position *vis-à-vis* the borrower. In many securitisation transactions, however, the originator assigns only the economic receivable, *i.e.* the right to receive principal and interest, while remaining the contractual lender of record and retaining the associated rights and obligations towards the borrower. In such a case, one might argue the originator continues to qualify as "the person granting" the credit within the meaning of Article 135(1)(b).

Moreover, as the judgement was issued by the General Court rather than the Court of Justice of the European Union itself, a review on points of law by the Court of Justice remains open, and the outcome of any such review should be monitored before drawing final conclusions on the German VAT position.

Luxembourg Aspects

In practice, many securitisation transactions involve an SPV established in Luxembourg. In such a case, the VAT treatment of the servicing must be assessed under Luxembourg VAT law: servicing provided by an originator (wherever established) to a Luxembourg SPV constitutes a B2B supply that is deemed to be made in Luxembourg.

As with the position of the German tax authorities, it is not yet clear how the Luxembourg tax authorities will react to Case T-184/25 and whether this ruling (which did not concern a securitisation transaction) will affect the approach currently taken under Luxembourg administrative practice, under which servicing may benefit from the VAT exemption on financial services.

It should be noted that the conditions attaching to the exemption (in particular, the requirement that services be "specific and essential" to the vehicle) will need to be assessed carefully against the facts of each transaction. Where the originator retains the status of contractual lender of record *vis-à-vis* the borrowers, the structural distinction drawn in Case T-184/25 (which concerned a complete novation of the loan relationship) may carry less force, strengthening the argument that the servicing activities remain linked to the credit originally granted.

That said, as management services rendered to Luxembourg securitisation vehicles benefit from a VAT exemption under article 44(1)(d) of the Luxembourg VAT law (*loi modifiée du 12 février 1979 concernant la taxe sur la valeur ajoutée*) – which implements Article 135(1)(g) of the EU VAT Directive 2006/112/EC (exemption for the management of special investment funds as defined by Member States) – a Luxembourg SPV would potentially be in a more favorable VAT position than the subsidiary (which acquired the mortgage loans from its parent company which was the originator and servicer of the sold loans) examined in Case T-184/25. Indeed, where the originator performs comprehensive loan servicing functions (encompassing customer administration, rate and interest calculations, loan amendments and debt collection) that are specific and essential to the management of assets held by the Luxembourg SPV, one may consider that such VAT exemption would still be available.

In this respect, it is important to note that the General Court in Case T-184/25 examined exclusively the financial services exemptions under Article 135 (1) (b), (c) and (d) of the EU VAT Directive and made no findings on the scope of Article 135 (1) (g). Accordingly, the ruling in Case T-184/25 should have no direct bearing on the availability of the Luxembourg exemption to the extent it is grounded in Article 135 (1) (g).

What should you do now?

In light of this ruling, we recommend that affected parties consider the following steps:

1. Closely monitor the reactions by the relevant tax authorities.
2. Identify your securitisation or loan transfer structures in which the originator provides servicing or credit management services to the transferee for consideration, whether by way of a separate servicing fee or through an embedded component of the purchase price.
3. Assess whether any VAT exemption has been applied to the servicing fee (including exemption for management services in case of a Luxembourg SPV), and whether the pricing and documentation of the transaction was structured on the assumption of VAT exemption.

Please do not hesitate to contact the authors or your usual Clifford Chance contact if you would like to discuss how this ruling may affect your arrangements.

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