

VAT Treatment of Extended Warranties

This document should be read in conjunction with paragraph 8 of Schedule 1 to the VAT Consolidation Act 2010 (VATCA 2010)

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Introduction

This guidance sets out the VAT treatment of extended warranties and the circumstances where an extended warranty should be treated as insurance for VAT purposes and not as a manufacturer's warranty.

1 What is an Extended Warranty?

When goods (such as furniture, household electrical appliances and other computer equipment) are sold, the consumers may also purchase an extension of the warranty as a separate insurance service plan, which provides, in the event of a claim, for the repair of the article purchased or, possibly, its replacement, for a period beyond the period covered by the warranty provided by the manufacturer.

These separate insurance service plans are referred to in this guidance as extended warranties.

2 What is insurance?

Insurance is a service whereby the insurer undertakes, in return for prior payment of a premium, to provide the insured, in the event of materialisation of the risk covered, with the service agreed when the contract was signed.

3 What is a Manufacturer's Warranty?

A manufacturer's warranty is a guarantee provided by a manufacturer of a product, that the product will function as expected for a specific period. In general, where the product does not function as expected within the warranty period due to defects in the workmanship or the materials, the manufacturer will repair or replace it.

4 VAT Treatment

4.1 VAT Treatment: Insurance

The supply of insurance is exempt from VAT.

4.2 VAT Treatment: Extended Warranties

The supply of an extended warranty is a VAT exempt supply of an [insurance service](#), in circumstances where it meets the definition of insurance, i.e., where the provider undertakes, in return for payment, to provide the consumer, in the event of materialisation of the risk covered, with the repair/replacement service agreed when the insurance service plan (extended warranty) was signed.

Example 1

Retailer A is a retailer of electrical household goods. It also offers extended warranties that consumers can purchase when they buy goods, whereby in consideration for a fee, and subject to conditions, Retailer A will arrange for the repair or replacement of the goods sold.

Consumer A buys a washing machine and opts to purchase the extended warranty, that provides for the repair of the washing machine or, possibly, its replacement, for a period of 3 years.

Where a claim is made, a third party will repair the washing machine and will charge Retailer A for the service. There is no extra charge to the consumer for the repair.

The supply of the extended warranty by the retailer to the consumer is exempt from VAT.

4.3 VAT Treatment: Manufacturer's Warranties

Typically, a manufacturer's guarantee or warranty that is included in the supply of goods attracts the rate of VAT applicable to the goods sold to the consumer. Further guidance can be found here [TDM Mixed supplies of goods and services](#).

5 VAT Deductibility – Insurance (including extended warranties)

The rules on VAT deductibility relating to the supply of insurance are set out [here](#)

In summary: -

- Insurance policies supplied to policyholders located outside of the EU constitute a [qualifying activity](#).
- Insurance policies supplied to policyholders located within the EU constitute a VAT exempt supply.
- Any costs that are directly attributable to the supply of insurance policies to non-EU policyholders are eligible for full VAT deductibility.
- Any costs directly attributable to the supply of insurance policies to EU policyholders are not eligible for VAT deductibility.
- Where costs are not directly attributable to supplies of insurance policies to EU or non-EU policyholders, but have been used for both, an apportionment of VAT deductibility is required.

6 Commission Payments to retailers

In general, extended warranties offered by retailers are supplied by third-party insurance providers who pay commission to the retailers to sell their products (i.e., the extended warranties).

The retailer is acting as an agent of the third-party insurance provider in finding prospective customers for the third-party insurance provider. Therefore, the commission payments paid to retailers are exempt from VAT.

The retailer's primary activity will be the sale of taxable goods. Any VAT incurred on costs related to these goods is deductible under normal VAT rules.

However, retailers need to be aware of VAT exempt activities when it comes to assessing the level of deductibility for VAT incurred on input costs. As the commission payments are exempt from VAT any VAT incurred on costs related to this activity is not deductible.

Any VAT on costs incurred that relate to both the taxable supply of goods and the VAT exempt commissions from the sale of extended warranties will need to be apportioned.

Commission payments received by retailers from the supply of extended warranties is not incidental income to be disregarded when calculating the proportion of VAT deductibility for dual use inputs.

Example 2

Retailer A, in the example above, is entitled to VAT deductibility in respect of its sales of electrical goods under normal VAT rules.

It is not entitled to VAT deductibility for costs associated with the sale of extended warranties.

Retailer A calculates its VAT deductibility for dual use inputs (general overheads) on a turnover basis.

In calculating VAT deductibility on dual use inputs (e.g. on utility bills, rent etc.), Retailer A must include income from the sales of extended warranties.

VAT exclusive turnover from sales of standard rated goods	€1,000,000
Commission from the sale of VAT exempt extended warranties	€ 100,000

VAT Deductibility on general overheads is calculated as follows: -

$$(\text{€}1,000,000 / (\text{€}1,000,000 + \text{€}100,000)) \quad 91\%$$

Retailer A is entitled to deduct 91% of VAT on dual use inputs (general overheads).