

CJEU JUDGMENT IN KOSMIRO – FACTORING FEES CONSTITUTE TAXABLE DEBT COLLECTION SERVICES

BACKGROUND

On 23 October 2025, the Court of Justice of the European Union (CJEU) delivered its judgment in case C-232/24 (Kosmiro), concluding that trade factoring and invoice factoring constitute taxable debt collection services for value added tax (VAT) purposes, even where they involve the provision of financing.

The Court reached this conclusion by adopting a wide reading of the term “debt collection”, which is specifically excluded from the list of VAT exempt financial services under Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax (VAT Directive), and by focusing on the role of Kosmiro in collecting the debts as they fell due.

The CJEU emphasized the nature of the trade factoring services, which includes taking on the risk of debt collection.

CJEU JUDGMENT

Following the Advocate General's Opinion, the CJEU held that both invoice factoring and trade factoring qualify as economic activities carried out for remuneration and therefore fall within the scope of VAT.

The Court considered that the core nature of these arrangements lies in the collection and management of receivables, rather than the granting of credit. As such, they must be regarded as taxable debt collection services rather than VAT-exempt financial services.

The CJEU adopted a broad interpretation of the “debt collection” exclusion from the VAT exemption list, reiterating that exemptions must be interpreted strictly. The Court found that even where the provider purchases or finances receivables, the decisive factor is whether it undertakes recovery activities in its own name and for its own account.

The Court further distinguished the facts of Kosmiro from an earlier Polish case (O. Fundusz Inwestycyjny Zamknięty reprezentowany przez, C-250/21) involving sub-participation agreements, where the arrangements mirrored the form and function of a loan. For the Court, in the Kosmiro case, the provider's active role in the recovery of debts was the key differentiator.

Finally, the Court confirmed that the debt collection exclusion under Article 135(1)(d) of the VAT Directive is unconditional and sufficiently precise to have direct effect, meaning that taxpayers can rely upon it directly before the national courts.

IMPLICATIONS AND KEY TAKEAWAYS FOR LUXEMBOURG

From a Luxembourg VAT perspective, the Kosmiro judgment could have significant consequences for businesses engaged in factoring, receivables financing or similar arrangements involving the management or collection of debts.

In light of the Kosmiro case, where a Luxembourg entity assumes an active role in collecting, managing, and/or administering receivables, the services may now fall within the scope of taxable debt collection activities.

- ▶ The *Kosmiro* judgment confirms that factoring and financing arrangements involving receivables collection are taxable debt collection services
- ▶ The exemption relating to the granting of credit does not apply where the provider undertakes active debt recovery or management
- ▶ Luxembourg taxpayers engaged in factoring or receivables financing should reassess their VAT position and documentation
- ▶ The judgment may trigger regularization obligations for past returns if services were previously treated as exempt
- ▶ Companies purchasing such services with limited right of deduction could face increased VAT costs if the activity is deemed taxable
- ▶ Given the blurred boundary between exempt financing and taxable debt collection, careful analysis of the contractual and operational features of each arrangement will be essential to determine the correct VAT treatment

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