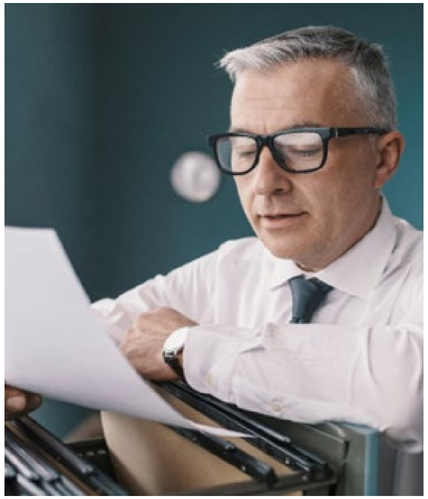
Tax Newsletter

Timely news and information on national tax issues

Sale of non-performing portfolio at market values



As standard operating practice, all companies offer credit when selling their goods and services to their customers, at terms determined by their financial departments, based on the nature of their operation and their cash conversion cycle, either at the request of their customers or simply based on calendar periods (one month, two months, etc.)

This payment arrangement also creates risks for the company, with the most common being the risk of uncollectibility of these accounts receivable. This affects companies' finances in the following aspects:

- having to assume additional expenses for the recovery of the balances (legal expenses, collections expenses);
- need for external financing;
- lack of liquidity; and
- disadvantage against the competition, among others.

What should companies do when part of the portfolio of accounts receivable becomes uncollectible?

A variety of actions can be taken when facing a default situation in the portfolio of accounts receivable, among which are the following:

- carrying out legal collections formalities;
- providing additional payment arrangements to the debtors;
- establishing allowances for bad debts; and
- selling the non-performing portfolio; among others.

In this article, we will focus on the sale of non-performing portfolio.

At what value can the non-performing portfolio of accounts receivable be sold?

The sale of the non-performing portfolio is an alternative that could be attractive for companies facing the consequences mentioned above due to lack of payment by their customers. This raises the question of **how to determine the value of the sale of the non-performing portfolio.** For such purpose, it is important to perform an economic analysis that determines the fair value at which the non-performing portfolio can be transferred.

Performing an analysis that helps support the sale price determined for the portfolio is of the utmost importance, since there will be many interested parties/users of this analysis. Some of these interested parties/users include the parties directly involved (purchaser and seller), auditors, and the tax authorities.

As a first step, it is important to determine the non-performing portfolio to be transferred and separate it from the portfolio of accounts receivable that is still current or that has a reasonable recovery period.

Subsequently, a methodology that meets the technical and legal/tax requirements must be applied to ensure a fair market price.

Transfer Pricing Methodology

For the sale of these types of assets between companies, as already mentioned, it is essential to have a value determined through a technically reasonable methodology. This is especially the case if this transaction will be conducted between related parties, in order to have all the support for demonstrating that the transaction has been agreed to at **market values**.

The approach proposed in this article for determining the value of a sale of a non-performing portfolio of accounts receivable considers merely market aspects, which comply with the technical transfer pricing and tax requirements to support the transaction values.

The proposed valuation methodology consists of the identification of debt financial instruments (for example, bonds) that are in default in the different databases, such as Capital IQ®, Refinitiv Eikon®, or any other that provides information on these types of instruments.

In these databases, it is possible to obtain different data on the bonds, with which the instruments that will ultimately be used in the analysis are selected, such as:

- credit classification of the issuer;
- currency of the transaction;
- payment characteristics;
- collateral and/or guarantees; and
- market, among others.

Once the previous analysis of identification and selection of the bonds in default is performed, companies should proceed as follows.

The initial price at which the bonds were issued and the current market price of those in default are identified. The difference between both prices is obtained, and the **discount percentage** applied by the market to the bonds in default is determined. This is done for each debt financial instrument.

With the discount percentages for all the bonds in default, a market interquartile range is determined. This interquartile range of percentages is applied to the value of the non-performing portfolio that is sought to be sold, to determine the market range at which the non-performing portfolio can be transacted.

Practical application

A numerical example is presented below for a better understanding:

Bonds in default selected:

Currency	Date of issuance	Status	Initial price	Current price
USD	05/01/24	Default	102.00	74.00
USD	10/02/24	Default	94.00	55.00
USD	25/03/24	Default	115.00	80.00
USD	04/04/24	Default	96.00	71.00
USD	13/07/24	Default	101.00	40.00
USD	20/08/24	Default	89.00	62.00
USD	20/10/24	Default	97.00	66.00

Source: *Refinitiv Eikon*

After determining the bonds that are in comparable situations, the discount percentages are obtained:

Initial price (A)	Current price (B)	% discount C = B / A
102.00	74.00	72.55%
94.00	55.00	58.51%
115.00	80.00	69.57%
96.00	71.00	73.96%
101.00	40.00	39.60%
89.00	62.00	69.66%
97.00	66.00	68.04%

Source: own calculations with market information

Assuming that the value of the non-performing portfolio is USD 130,000.00. (Value A)

The interquartile range of the calculated discount percentages is determined, obtaining the following market range and the result for the value at which the non-performing portfolio can be sold:

Items	Range of discount % (B)	Value of the non-performing portfolio at market values A * B
Lower quartile	63.28%	USD 82,257.50
Median	69.57%	USD 90,441.00
Upper quartile	71.11%	USD 92,436.50

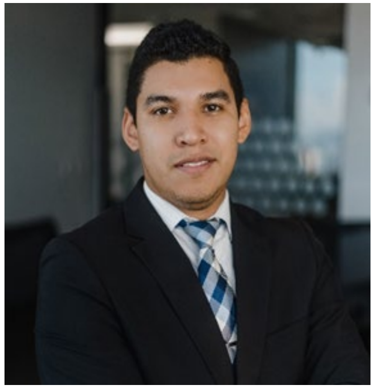
Source: own calculations with market information

The result determined shows that the non-performing portfolio with a book value of USD 130,000.00 can be sold at between USD 82,257.50 and USD 92,436.50, to comply with the technical and tax requirements.

The valuation and sale of a non-performing portfolio can be an attractive strategy for companies in such a circumstance, allowing them to obtain tax and operating benefits from this adverse situation that the operation of the business itself has led them to.

More information:

Federico Paz
Tax Partner
fepaz@deloitte.com



Alvaro Miranda
Transfer Pricing Senior Manager
ajmiranda@deloitte.com

Tax Calendar

Use our 2025 Tax Calendar to keep informed about:

- Tax Obligations before the Tax Office (Ministerio de Hacienda)
- Municipal Tax Obligations
- Payroll Management Obligations

August 2025

S	M	T	W	T	F	S
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30
31						

To learn more about **August's** obligations:

Download the 2025 Tax Calendar

Contacts

Federico Paz
Tax Partner
fepaz@deloitte.com

Ghendrex García
Tax and BPS Partner
ggarciaq@deloitte.com

Mario Coyoy
Transfer Pricing Leader for Central America
mcoyoy@deloitte.com

Cosette Fuentes
Legal Services Senior Manager
cg.fuentes@deloitte.com

Emerson Inocente
Tax Manager
einocente@deloitte.com

Alvaro Miranda
Transfer Pricing Senior Manager
ajmiranda@deloitte.com

Rita Vega
Legal Services Manager
ritvega@deloitte.com

José Ángel Lopez
Transfer Pricing Manager
joselopez@deloitte.com