An Introduction to VAT Margin Schemes

Business Information Factsheet

BIF505 · March 2016

Introduction

There are a number of VAT accounting schemes that can be used as an alternative to the standard methods of accounting for VAT by a VAT-registered business. These VAT accounting schemes can help certain types of business save time and money.

The VAT margin schemes are specifically for businesses that deal in second-hand goods, works of art, antiques and collectibles. As there may have been no VAT to reclaim when these items were purchased, the VAT margin schemes allow the business to account only for the VAT on the difference - or margin - between the price paid for an item and the price received for it, rather than on the full selling price. If there is no profit made on the sale of an item, no VAT is payable. A business can still use standard VAT accounting for other transactions that don't involve second-hand goods and other eligible items.

This factsheet explains what the VAT margin schemes are, how they can be used, and how they apply to specific business sectors.

What do the margin schemes cover and how do they work?

Under standard VAT accounting rules, when a business buys and sells an item, it pays VAT on the purchase price of the item and charges VAT on the sale price of the item. If the business is registered for VAT, it can reclaim the VAT paid on the purchase price of the item, and must pay the VAT charged on the sale price of the item to HM Revenue & Customs (HMRC). However, if the business deals in certain types of second-hand goods, works of art, antiques or collectibles, it may not pay VAT on the purchase price of these items, and therefore cannot reclaim any VAT.

The VAT margin schemes apply when there is no VAT to reclaim, allowing a business to account only for the VAT on the difference between the purchase price and the sale price of an item - the margin. In other words, VAT is only payable on the value that has been added to the items, rather than the full selling price. If the business doesn't make a profit on an item, it doesn't need to account for VAT on the sale.

The VAT margin schemes can only be used for transactions involving certain eligible goods. These include:

- **Second-hand goods.** Goods that are not new, but can still be used, or repaired for use. This includes most motor vehicles, excluding vehicles sold for parts or scrap.
- **Works of art.** Paintings, sculptures, prints and other work created by an artist, excluding certain commercial types of art such as technical drawings, maps and plans.
- **Antiques.** Goods other than works of art or collectibles that are more than 100 years old.

- **Collectibles.** Stamps and other philatelic collectors' items, excluding unfranked stamps that are valid for postage, plus other collectors' items of historical, archaeological, botanical or zoological interest.

Ineligible items include coins and other items containing precious metals, gold bought as an investment, and unmounted or unset precious stones.

A VAT margin scheme can only be used if eligible goods were bought in eligible circumstances, for example from a business that is selling under the margin scheme, or is not registered for VAT. The scheme cannot be used if the purchase invoice shows that VAT has been charged separately. And a business owner cannot use the scheme if they sell goods that were given to them as a gift.

For items and transactions that aren't eligible for the VAT margin schemes, it is possible to continue to reclaim VAT via the standard VAT accounting scheme.

How to use a margin scheme

To use a VAT margin scheme, the VAT due on any margins should be calculated, and suitable records of any sales and purchases must be kept. These records should be kept in the same way as standard VAT records, and it is possible to start using a scheme at any time, without making any application to HMRC.

Under a VAT margin scheme, the gross margin is the difference between the purchase price and the sale price, and it is treated as VAT-inclusive. The purchase price is the amount paid for an item, and cannot include any cost involved in making the item suitable for sale, for example for repair or refurbishment. The sale price is the amount received for an item, including the value of any item taken in part exchange, and including incidental expenses relating to the sale, but excluding extras such as the cost of delivering the item to the buyer.

To calculate the VAT due, the gross margin should be multiplied by the VAT rate. For example, if an eligible second-hand item was bought for £1,000 and sold for £1,400, VAT would be payable on the margin of £400, rather than on the selling price of £1,400. At a standard VAT rate of 20%, £80 VAT would be payable rather than £280.

VAT records must be kept when using a VAT margin scheme, and must show any goods bought or sold under a scheme on the VAT return. In addition, it is necessary to keep:

- **A stock book.** This should be used to record information about each item for which a scheme will be used. The information required includes:
  - Date of purchase, purchase invoice number, purchase price, name of seller.
  - Date of sale, sales invoice number, sale price, name of buyer.
  - Gross margin on sale, VAT due on margin.
- **Purchase invoices.** If an item is bought from a VAT-registered business under a VAT margin scheme, the purchase invoice must show that the scheme has been applied. If an item is bought from a business or individual that isn't VAT-registered, the business must produce a purchase invoice itself and keep it with the VAT records.
- **Sales invoices.** Copies of sales invoices must be kept for items sold under margin schemes. Invoices must show that the scheme has been applied, and must not show VAT separately, as the sale price is treated as VAT-inclusive.

Special margin schemes by sector

If a business operates in a particular sector, there may be special requirements for using a VAT margin scheme. Business types and sectors with special requirements are as follows:

- Agents who act in their own name and sell eligible goods can use a margin scheme, with the margin being calculated according to how they charge for their services.
- Auctioneers acting in their own name and selling eligible goods can use an agents' scheme, or can use a specific auctioneers' scheme, where a separate invoice must be issued for any charges other than the auctioneer's commission.
- Motor vehicles traded under the margin schemes must have been previously driven on the road for business or pleasure. A vehicle that has been registered but only has delivery mileage on the clock will not be regarded as second-hand for the purposes of the schemes.
- Horses and ponies can be traded under the margin schemes, and a business can use a specific three-part form available from the British Equestrian Trade Association (BETA) (www.beta-uk.org/media/riders/download/New%20Vat%20Order%20Form%20april%202013.pdf).
- Pawnbrokers can use the margin schemes for the sale of unredeemed pawned goods, with the requirement that the value of the original loan was not more than £75, that it had a six-month redemption period, and that the pawnbroker took title to the goods.
- Goods in which shares have been sold, or which are jointly owned, can be accounted for using the margin schemes, subject to specific requirements set out by HMRC.
- Goods bought or sold outside of the UK are subject to varying requirements, depending on how the goods were supplied and whether they were bought or sold inside or outside of the EU.

A business that deals in high-volume, low-price items, making it difficult to keep detailed records of individual items, may use VAT Global Accounting, which is a simplified version of the margin scheme. In Global Accounting, the margin is the difference between the business' total eligible purchases and total eligible sales during an accounting period.

HMRC provides detailed guidance on the use of margin schemes in the above circumstances in VAT Notice 718, available from the HMRC website (www.gov.uk/government/collections/vat-notices-numerical-order).

Using margin schemes with other VAT schemes

The VAT margin schemes can be used with certain other VAT schemes, but are incompatible with some others. Examples of other VAT schemes include:

- **Annual Accounting Scheme.** This scheme requires a business to make nine monthly or three quarterly interim payments throughout a year, with a balancing payment made when a VAT return is completed at the end of the year. The VAT margin scheme is compatible with the Annual Accounting Scheme.
- **Cash Accounting Scheme.** This scheme allows a business to pay VAT after they are paid by their customers, rather than when they have issued an invoice. This scheme is also VAT margin scheme-compatible.

- **Flat Rate Scheme.** Under this scheme, a business pays a fixed rate of its turnover as VAT. VAT margin schemes cannot be used with this scheme.
- **Retail schemes.** Retailers can simplify their VAT accounting by using a retail scheme that removes the need to account for VAT on every individual sale. The VAT margin schemes are not generally suitable for use with retail schemes.

Hints and tips

- Using a margin scheme can help a business save time and money, as VAT only needs to be calculated on the value added to any items sold.
- If a business does not make a profit on a sale because it sells an item for less than it cost to buy, it won't need to account for the VAT.
- The usual VAT records should be kept when using a margin scheme, and any goods bought or sold using a scheme must be shown on the VAT return.
- It is important to keep a stock book, purchase invoices and copies of sales invoices.
- VAT can still be reclaimed as normal on purchases made outside of the margin schemes.

Further information

BIF 234 An Introduction to VAT (Value Added Tax)
BIF 506 An Introduction to VAT Retail Schemes
BIF 522 An Introduction to Registering for VAT

Legal publications

'VAT margin schemes' for second-hand goods, works of art, antiques, collectors' items, etc.
HM Revenue & Customs (HMRC)
Website: www.gov.uk/vat-margin-schemes

Useful contacts

HMRC is the Government department responsible for the collection of tax. It also provides information and advice to individuals and businesses.
Tel: 0300 200 3700 (VAT Helpline)
Website: www.gov.uk/government/organisations/hm-revenue-customs

---

Cobweb Information Ltd, Unit 9 Bankside, The Watermark, Gateshead, NE11 9SY.
Tel: 0191 461 8000   Website: www.cobwebinfo.com