

# An Introduction to VAT Retail Schemes

Business Information Factsheet  
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## 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 retail schemes are specifically for retailers that supply goods to consumers, particularly those that sell a high volume of low-value items. It can be costly and time consuming for a retailer to account for the VAT on each of these items; therefore, retailers can use a VAT retail scheme to simplify the process of accounting for VAT.

This factsheet explains what the VAT retail schemes are, what they cover, and how they operate.

## What are the retail schemes?

Under standard VAT accounting rules, a VAT-registered business must record the VAT charged on each individual item that it sells. However, this can be excessively time consuming and costly, particularly for retailers that sell a high number of relatively low-value items. Under the VAT retail schemes, the total amount of VAT due is worked out by applying the appropriate VAT rate to the total value of VAT-taxable sales in a particular period rather than to each individual sale.

There are three standard VAT retail schemes:

- **Point of sale scheme.** VAT is calculated at point of sale, for example by using a till that identifies the VAT rate for each item sold.
- **Apportionment scheme.** For retailers that buy goods which they then resell, VAT is calculated using the proportion of the value of goods purchased at each VAT rate and the total value of sales.
- **Direct calculation scheme.** VAT is calculated using the expected selling prices for goods at a particular VAT rate. This is most applicable to retailers that sell the majority of items at one VAT rate, and only a minority of goods at another VAT rate.

In addition, retailers can agree on a bespoke scheme with HM Revenue & Customs (HMRC). There are also specific VAT schemes for retailers in certain sectors.

## What do the retail schemes cover?

A retailer can only use a VAT retail scheme for those items that are retailed in small quantities but to a large number of customers, making it difficult to account for VAT on these sales in the standard way. A VAT invoice must be issued to anyone that requests one for a VAT-registered

business. For items that aren't eligible for the VAT retail schemes, such as non-retail items, VAT can be accounted for via the standard VAT accounting scheme.

A retailer cannot use a standard VAT retail scheme if:

- They are able to account for VAT using standard VAT accounting.
- They have annual retail sales of £130 million or over. In this case, the retailer may be able to agree a bespoke scheme with HMRC.

## How do the retail schemes work?

The standard VAT retail schemes operate in slightly different ways:

- **Point of sale scheme.** This requires the retailer to identify the VAT rate for each item sold at the point of sale, usually via an electronic till that can differentiate between VAT rates. This allows the retailer to identify the proportions of takings that are made at each VAT rate. The retailer will then need to calculate their total takings, inclusive of VAT, and multiply that figure by each proportionate VAT rate. For example, if 80% of takings were at the standard rate, the retailer should multiply 80% of the total takings figure by the standard rate percentage. Calculations will normally be made on a daily basis.
- **Apportionment scheme (turnover of £1 million or less).** This requires a retailer to work out the proportion of items they buy for retail sale at each VAT rate, then apply those proportions to the retail sales total. The retailer will need to calculate total takings, inclusive of VAT, and multiply that figure by each proportionate VAT rate. For example, if 80% of items purchased by the retailer were at standard rate, then 80% of the sales value should have VAT applied at the standard rate.
- **Apportionment scheme (turnover between £1 million and £130 million).** This requires a retailer to work out the Expected Selling Price (ESP) of goods they buy for retail sale, and calculate the proportions to be sold at each VAT rate. The retailer will then need to apply those proportions to the total retail sales figure. For example, if 80% of the ESP of items bought is standard-rated, then 80% of the sales value should be accounted for at the standard rate of VAT.
- **Direct calculation schemes.** These require a retailer to work out the ESP of the items for retail sale at each VAT rate. This is generally used for 'minority goods', which are items at the rate of VAT that make up the smallest proportion of the retail sales figure. If the 'minority goods' are subject to VAT, a retailer can apply the relevant VAT rate to the total value of those items. If the 'minority goods' are zero-rated, the retailer can deduct their total value from the gross takings to calculate the total figure of VAT-taxable sales. If a retailer's turnover is between £1 million and £130 million, they must also make an annual stock adjustment.

## Bespoke and sector-specific retail schemes

Retailers with a turnover of more than £130 million cannot use the standard retail schemes, but can agree a bespoke scheme with HMRC. Retailers with a turnover of £130 million or less may also be able to agree a bespoke scheme if it will be more appropriate for their business.

There are also specific retail schemes and rules for catering, chemist and florist services.

- Caterers may need to make a VAT adjustment, known as a Catering Adaptation, to take into account goods that are purchased at zero rate, but sold to customers at standard rate.
- Retail chemists must make an adjustment to take into account the fact that goods dispensed on prescription are standard-rated when purchased by the retail chemist but zero-rated when supplied to patients.
- Florists that are members of Interflora may need to make an adjustment to their VAT return. The adjustment depends on the type of retail scheme they are using, and whether they receive payments directly from customers or from Interflora.

HMRC provides detailed guidance on the use of standard, bespoke and specific retail schemes in VAT Notice 727, available from the HMRC website ([www.gov.uk/government/collections/vat-notice-727](http://www.gov.uk/government/collections/vat-notice-727)).

## How do retailers use a VAT retail scheme, and what are the record-keeping requirements?

A retailer can join or leave a retail scheme at the beginning or end of any VAT period. A retailer can also transfer to another retail scheme on the anniversary of the date that they joined the scheme. In certain circumstances, HMRC may allow retailers to change schemes partway through a year.

To use a VAT retail scheme, a retailer needs to account for VAT according to the rules specified by HMRC and keep appropriate records. These records should be kept in the same way as standard VAT records.

Whichever retail scheme is used, a record must be kept of retail sales, known as the Daily Gross Takings (DGT), which will usually be compiled from till rolls or copies of sales vouchers. This record must include:

- All payments for retail sales received from cash-paying customers.
- The full value, inclusive of VAT, of all credit and non-cash retail sales.
- Details of any adjustments to the DGT.

## Using retail schemes with other VAT schemes

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

- **Annual Accounting Scheme.** This scheme requires the 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 retail schemes are compatible with the Annual Accounting Scheme.
- **Cash Accounting Scheme.** This scheme allows the business to pay VAT after the business is paid by its customers, rather than when it has issued an invoice. The VAT retail schemes are also compatible with the Cash Accounting Scheme.
- **Flat Rate Scheme.** Under this scheme, the business pays a fixed percentage of its turnover as VAT. VAT retail schemes cannot be used with a Flat Rate Scheme.

- **Margin schemes.** 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. The retail schemes are not compatible with the margin schemes.

## Hints and tips

- Using a retail scheme can help save time and money because it is not necessary to account for VAT on each individual item sold.
- The retail schemes can be used for retail sales only. VAT must be accounted for on non-retail sales in the standard way.
- Sales to other VAT-registered firms cannot be included in a retail scheme, except for occasional cash sales, such as a garage supplying petrol to a VAT-registered customer.
- The point of sale scheme is the simplest to operate, but may require additional investment in the form of electronic tills, which cost from around £180 (excluding VAT).
- Whichever scheme is used, a record must be kept of the DGT.

## Further information

BIF 234 An Introduction to VAT (Value Added Tax)

BIF 505 An Introduction to VAT Margin Schemes

BIF 522 An Introduction to Registering for VAT

## Legal publications

'VAT retail schemes'

HM Revenue & Customs (HMRC)

Website: [www.gov.uk/vat-retail-schemes](http://www.gov.uk/vat-retail-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](http://www.gov.uk/government/organisations/hm-revenue-customs)

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