Foreword

This notice cancels and replaces Notice 718 (January 2002). Details of any changes to the previous version can be found in paragraph 1.2 of this notice.

Further help and advice

If you need general advice or more copies of Customs and Excise notices, please ring the **National Advice Service** on **0845 010 9000. You can call between 8.00 am and 8.00 pm, Monday to Friday.**

If you have **hearing difficulties**, please ring the **Textphone** service on **0845 000 0200.**

If you would like to speak to someone in Welsh, please ring 0845 010 0300, between 8.00 am and 6.00 pm, Monday to Friday.

All calls are charged at the local rate within the UK. Charges may differ for mobile phones.

Other notices on this or related subjects

Notices 60 **|** 700 **|** 700/1 **|** 700/12 **|** 700/18 **|** 701/20 **|** 701/21 **|** 701/21A **|** 701/36 **|** 702 **|** 703 **|** 705A **|** 723 **|** 725 **|** 728 **|** IPT1.

If you are not already registered for VAT you should ask the National Advice Service for Notice 700/1 Should I be registered for VAT?

1. Introduction

1.1 What is this notice about?

This notice is about:

- second-hand goods;
- works of art;
- antiques;or
- collector's items.

The notice explains:

- which goods may be sold under the scheme;
- how the scheme works;
- how to calculate the margin;

- what records must be kept;
- how the scheme applies in specific circumstances;
- special rules which apply if you make supplies of second-hand vehicles; and
- special rules which apply if you make supplies of horses and ponies.

The full title of the scheme is “The Margin Schemes for second-hand goods, works of art, antiques and collectors’ items”. Throughout this notice it is simply referred to as the Margin Scheme.

This notice assumes that you have a working knowledge of basic VAT principles, as outlined in Notice 700 The VAT Guide.

If, after reading this notice, you need any further help or advice please contact our National Advice Service.

1.2 What’s changed

This notice has been rewritten to improve readability. Paragraph 24.7 gives new guidance about the changes which apply to banks and financial institutions selling cars and other goods which were obtained by the bank or financial institution when they were assigned the rights in a hire purchase or conditional sale agreement, and to all businesses selling goods they obtained as a result of a transfer of a going concern, (TOGC).

This revised notice also:

- clarifies what to do if a Global Accounting purchase invoice is received from an unregistered dealer;
- clarifies treatment of indemnity fees charged by auctioneers;
- corrects the calculation in example 5 of how VAT is worked out under the Auctioneers’ Scheme;
- removes the requirement for the auctioneer’s signature to confirm the price paid or received on parts B & C of the three part form for sales of horses and ponies;
- amends the address of the British Equestrian Trade Association;
- clarifies the record-keeping requirements if a copy of an HP agreement is not held for sales under HP;
- clarifies carry over of negative margins under Global Accounting;

- includes a new paragraph on occasional sales made by businesses who do not normally deal in second-hand goods; and
- clarifies time limit for re-invoicing under the Auctioneers' Scheme.

You can access details of any changes to this notice since May 2003 either on our Internet website at www.hmce.gov.uk or by telephoning the National Advice Service on 0845 010 9000.

This notice and others mentioned are available both on paper and on our website.

1.3 Who should read this notice

You should read this notice if you make, or intend to make, supplies of:

- second-hand goods;
- works of art;
- antiques; or
- collectors' items.

Full definitions of each category are provided at paragraph 25.1.

You should also read this notice if you make supplies of bulk volume, low value, Margin Scheme goods or if you are an auctioneer making supplies of Margin Scheme goods. Variations of the Margin Scheme, known as Global Accounting and the Auctioneers' Scheme, are available in these circumstances.

1.4 What law covers this notice?

Article 26a of the EC Sixth VAT Directive (as inserted with effect from 1 January 1995 by the Seventh Directive 94/5/EC) details the special arrangements applicable to second-hand goods, works of art, antiques and collectors' items. In UK law, Section 50A of the VAT Act 1994 allows the Treasury to make Orders to introduce second-hand schemes. The Orders currently in force are:

- The VAT (Cars) Order 1992 (as amended); and
- The VAT (Special Provisions) Order 1995 (as amended). This Order covers all goods other than cars.

These Orders require businesses who use the Margin Scheme to keep the records and accounts detailed in section 3 of this notice. In this respect, all of section 3 of the notice has legal force and supplements the law.

Certain paragraphs within other parts of the notice also have legal force and supplement the law. The text of those paragraphs is indicated through being placed in a box.

2. Basic principles

2.1 What is the Margin Scheme?

VAT is normally due on the full value of the goods you sell. The Margin Scheme allows you to calculate VAT on the difference (or margin) between your buying price and your selling price. If no profit is made (because the purchase price exceeds the selling price) then no VAT is payable.

The scheme is not compulsory. If you decide to use it you must meet the conditions of the scheme or VAT will be due on the full selling price of your sales.

2.2 Why is there a Margin Scheme?

Businesses buying and selling goods can usually recover the VAT they are charged on their stock as input tax. But if you obtain most of your stock from members of the public who are not VAT registered or from other dealers using the Margin Scheme, you will have no VAT to recover. The Margin Scheme means that you still charge VAT but only on the value you add to the goods. By calculating VAT on the margin, the scheme therefore avoids double taxation as second-hand goods re-enter the economic cycle.

2.3 What are the conditions of the Scheme?

The detailed conditions are explained throughout this notice. The essentials of the scheme are:

- **The goods must be eligible.** The definition of second-hand goods, works of art, antiques and collectors' items is in paragraph 2.7.

- **That goods sold under the scheme must be acquired by you in eligible circumstances.** In most cases this means that you have obtained eligible goods for resale in circumstances where you cannot recover any input tax (see paragraph 2.9).

- **You must calculate the margin in accordance with the rules of the scheme.** There are special rules about how to calculate your buying price, your selling price and your margin under the scheme. Your margin may not be the same as your profit margin (see paragraph 2.11).

- **You must meet the record keeping requirements of the scheme.** There are special rules about invoicing and stock records (see section 3) and unless you meet those conditions, VAT will be due on the full selling price of your sales.

2.4 What if I can't meet all the conditions?

If you sell an eligible item but cannot meet all the record-keeping, invoicing and accounting requirements in section 3, you cannot use the Margin Scheme. You must deal with the sale in the normal way, accounting for VAT on the full selling price.

2.5 How does the Margin Scheme affect my sales under the normal rules?

You can use the Margin Scheme alongside sales under the normal rules. If you do sell an item under the normal VAT arrangements (that is you charge VAT on the full selling price) you cannot choose to use the Margin Scheme retrospectively for the sale.

2.6 How does the Margin Scheme affect VAT on my overheads?

You can reclaim VAT you are charged on any business overheads, repairs, parts or accessories. But, you must not add any of these costs to the purchase price of the goods you sell under the scheme. For example, if you purchase new parts which you fit to a car you cannot add the cost of those parts to the purchase price of the car.

2.7 Which goods are eligible and ineligible for the scheme?

Paragraph 25.1 reproduces the law on eligible goods. It defines second-hand goods, works of art, antiques and collectors' items and details goods excluded from the scheme. The following guidance will help you interpret the law.

(a) **Second-hand goods (including motor vehicles).** The legal definition is that eligible goods are goods suitable for further use as they are or after repair. In most cases goods which are second-hand in the ordinary usage of the term will be eligible for the Margin Scheme.

(b) **Works of art.** Works of art covers pictures, paintings, collages and drawings executed by hand by the artist. Paragraph 25.1 covers most items that would be considered works of art in the ordinary usage of the word. But craft items and items produced in a technical or industrial context may not qualify. If in doubt, check the list in paragraph 25.1.

(c) **Antiques and collectors' items.** Antiques are goods over 100 years old. Not all goods that can be collected are eligible as collectors' items under the scheme. If in doubt check the list in paragraph 25.1.

(d) **Goods which are not eligible.** Precious metals and precious stones are not eligible for the scheme. If in doubt check the list in paragraph 25.1.

2.8 How do I calculate my selling price?

Your selling price is:

- everything which you are to receive for the goods whether from the buyer or a third party. It includes incidental expenses directly linked to the sale.

Optional extras charged to the buyer and disbursements do not form part of the selling price and should be accounted for separately outside the Margin Scheme. The consideration may not be wholly in money and the normal rules about value in Notice 700 The VAT guide will apply.

2.9 Can I sell all eligible goods under the scheme?

No. Goods which are second-hand, works of art, antiques or collectors' items do not become automatically eligible for the scheme. To be eligible, goods must be acquired in particular circumstances, the most common of which are:

- where you buy the goods from a private individual or unregistered business which does not have to charge VAT to you; and

- when you buy the goods from another business which is selling them on the Margin Scheme.

If VAT is charged on goods you have purchased for resale, you cannot use the Margin Scheme regardless of whether you reclaim the VAT. The only exception to this rule is where you exercise the option to use the Margin Scheme for imported works of art, antiques and collectors' items and for works of art obtained from creators or their heirs (see section 18).

There will never be any input tax to reclaim on goods you have purchased for resale under the scheme.

2.10 How do I calculate my purchase price?

Your purchase price is:

- everything which you have to pay for the goods and will mirror the rules for selling price described in paragraph 2.8.

You must not include any cost to you of bringing the goods to sale. The purchase price does not include the cost of repair, refurbishment or business overheads. However, there are exceptions to this if you are a bank or financial institution, see paragraph 24.8.

2.11 How do I calculate the margin?

Under the Margin Scheme, you only have to account for VAT when the selling price of an item exceeds the purchase price.

To work out the VAT due on an individual sale follow the steps in the example below:		
(a)	Purchase price	£1,500
(b)	Selling price	£2,000
(c)	Gross Margin (b - a)	£500
(d)	VAT payable (c x 7/47ths)	£74.47

The calculation to work out the VAT due depends on the VAT rate in force. Currently, the standard rate of VAT is 17.5% (this gives a “VAT fraction” of 7/47ths which allows you to calculate the amount of VAT included in a given amount). When you have worked out your gross margin multiply the figure by 7 then divide by 47. If the standard rate of VAT changes at any time the “VAT fraction” will also change. Notice 700 The VAT Guide provides more detail about VAT fractions.

If you are selling goods which were obtained following a transfer of a business as a going concern (TOGC) you should follow the rules in paragraphs 24.6 and 24.8.

Banks or financial institutions selling goods that they obtained when the rights in a hire purchase or conditional sale agreement were assigned to them should follow the rules set out in paragraphs 24.7 and 24.8. Anyone that obtains such goods on the transfer of a going concern made by such bodies, should also follow the rules in these paragraphs.

3. Records and accounts

The detailed rules in this section have the force of law

3.1 What records must I keep?

To use the normal Margin Scheme you must keep all the records referred to in this section. If you do not, you cannot use the normal Margin Scheme and will have to pay VAT on the full selling price. The rules in this section are modified if you use one of the other schemes described in this notice (Global Accounting, Auctioneers’ Scheme, selling horses and ponies) and you must follow the rules in the relevant section.

The normal rules in Notice 700 The VAT Guide apply. In addition, to use the normal Margin Scheme, you must keep:

- a stock book or similar record as described at paragraph 3.3;
- purchase invoices as described at paragraph 3.5;
- copies of sales invoices as described at paragraph 3.7.

3.2 How long must I keep the records?

The normal rules about business records apply and they must be kept for at least 6 years. Notice 700 The VAT Guide explains a concession to this general rule. But if your stock includes goods which you obtained more than 6 years ago, you must retain all the evidence which will show your eligibility to margin scheme treatment when you eventually sell them.

3.3 What details do I have to include in my stock book?

Your stock book must be up to date at all times and must include the following information for each item you purchase for resale under the Margin Scheme (you can include any other information for your own accounting purposes);

Purchase details	**Sales details**
Stock number in numerical sequence	Date of sale
Date of purchase	Sales invoice number
Purchase invoice number	Name of buyer
Purchase price	Selling price or method of disposal
Name of seller	Margin on sale (sales price minus purchase price)
Any unique reference number (for example a car registration number)	VAT due (margin x VAT fraction – 7/47ths with a VAT rate of 17.5%)
Description of the goods (such as make and model)	

You must include your calculations under the appropriate headings in your stock book. If your purchase price exceeds, or is the same as your selling price then no VAT will be due. However, you cannot offset any VAT on goods which are sold at a loss. In these circumstances you should show the VAT due as “Nil” in your stock book.

An example of a Margin Scheme stock book is included at section 4.

3.4 What do I have to do when I buy eligible goods?

When you buy goods which you intend to sell under the Margin Scheme you must:

Step	Description
1	**Check that the goods are eligible for the scheme** (see section 2). Eligible goods purchased from private individuals or dealers who are not VAT registered can be sold under the scheme. If you buy from another VAT registered dealer it should be clearly indicated on your purchase invoice that the goods are being supplied under the Margin Scheme (see paragraph 3.5).
2	**Obtain a purchase invoice at the time you buy the goods.** If you buy from a private individual or an unregistered dealer you must make out the invoice. If you receive an invoice from an unregistered dealer you must ensure that it contains all the details necessary to meet the requirements of paragraph 3.4. If you buy from another registered dealer, that dealer will make out the invoice.
3	**Enter the purchase details of the goods in your stock book under the appropriate headings.** The purchase price you enter in your stock book must be the price on the invoice agreed between you and the seller. You must not alter the purchase price and must not add the cost of repair, refurbishment and business overheads.

If you buy a number of items as a single lot but intend to sell them separately, you must allocate a purchase price to each item. If you are using Global Accounting see section 5.

If you obtain goods under a transfer of a business as a going concern you should refer to the guidance in paragraphs 24.6 and 24.8.

Banks or financial institutions that obtained goods when the rights in a hire purchase or conditional sale agreement were assigned to them should refer to the guidance in paragraphs 24.7 and 24.8. Anyone that obtains such goods on the transfer of a going concern made by such bodies, should also follow this guidance.

3.5 What details must be included on purchase invoices?

The following information must always appear on your purchase invoices:

- seller’s name and address;
- your name and address;
- stock book number;

- invoice number;
- date of transaction;
- a description of the goods including any unique identification number;
- total price - you must not add any other costs to this price; and
- for goods purchased from another VAT registered dealer, a declaration by the seller that **“Input tax deduction has not been and will not be claimed by me in respect of the goods sold on this invoice”.**

Remember, if an amount of VAT is itemised separately on the invoice, the goods are not eligible for onward sale under the Margin Scheme.

3.6 What must I do to use the Margin Scheme for the sale of goods?

If you intend to use the Margin Scheme when selling eligible goods you must:

Step	Description
1	**Ensure that you have followed all the rules relating to the purchase of the goods** (see paragraph 3.4). If you have not, you cannot use the Margin Scheme for the sale of the goods.
2	**Make out a sales invoice** (see paragraph 3.7 for the details which must be included).
3	**Certify the invoice** “Input tax deduction has not been and will not be claimed by me in respect of the goods sold on this invoice”.
4	**Enter the sales details in your stock book** under the appropriate headings.
5	**Issue the invoice to your customer** and keep a copy for your records.

If you include more than one item on your sales invoice you must allocate a selling price to each item.

3.7 What details must I include on sales invoices?

The following information must always appear on your sales invoices:

- your name and address and VAT registration number;
- buyer’s name and address;

- stock book number;
- invoice number;
- date of sale;
- a description of the goods including any unique reference number;
- total price - you must not show VAT separately; and
- a declaration **“Input tax deduction has not been and will not be claimed by me in respect of the goods sold on this invoice”.**

If you sell an insurance product you should also disclose the full price of this on the invoice, plus any fees you are charging for the product outside the contract of insurance (see Notice IPT2 A General Guide to IPT).

3.8 Do I need to keep records for goods on sale or return?

If your stock includes goods supplied to you on a sale or return basis (see Notice 700 The VAT Guide) you must include, in your stock book or in a separate record of sale or return goods, the following details of the goods:

- the date of transfer of the goods;
- description of goods including any unique identification number - for example car registration;
- name and address of dealer/person transferring the goods; and
- date of sale or return.

Similarly, if any goods are removed from your stock on a sale or return basis to another dealer’s premises you should note your stock record with the date and details of the dealer to whom you have transferred the goods.

If you sell goods on behalf of a third party, and you issue an invoice for those goods in your own name, you are acting as an agent for VAT purposes (see paragraph 13.1).

3.9 How do I treat invoices in foreign currencies?

If you are buying and selling eligible goods in a foreign currency (including euros), you must convert any such values to sterling to show the prices for items bought or sold in order to calculate your margin (see table below). If you use Global Accounting or the Auctioneers' Scheme see the special rules in paragraphs 6.11 and 8.5 respectively.

How to calculate	
Purchase invoices	If your purchase invoice is in a foreign currency, you must convert the values to sterling. If you buy a number of items at an inclusive price and do not intend to sell them as one lot, you must convert the price to sterling and then apportion this amount between the items. You must enter the sterling amounts on an item by item basis in your stock record.
Sales invoices	If you issue a sales invoice in a foreign currency, the invoice must also show the sterling equivalent of the value of the goods. When you sell more than one item on the same invoice, you must show the foreign currency and sterling price for each item on that invoice and enter the sterling amounts in your stock record. If, however, you are selling as one lot goods which you bought as one lot, you need only show a total foreign currency and sterling value for that lot.

To convert amounts in foreign currencies you must use one of the methods outlined in Notice 700 The VAT Guide. But, whatever method you adopt, the exchange rate to use is that current at the time of supply by, or to, you.

3.10 How do I fill in my VAT return?

At the end of each tax period you will be sent a VAT return to fill in. To help you complete your VAT return you may find VAT leaflet 700/12 Filling in your VAT return useful. You can obtain a copy from our National Advice Service. There are some special rules which you must follow for any goods which you have bought or sold under the Margin Scheme during the tax period.

- **Box 1** Include the output tax due on all eligible goods sold in the period covered by the return.

- **Box 6** Include the full selling price of all eligible goods sold in the period, less any VAT due on the margin.

- **Box 7** Include the full purchase price of eligible goods bought in the period.

There is no requirement to include Margin Scheme purchases or sales in boxes 8 and 9 of your VAT return (see paragraph 15.5)

4. Example of a Margin Scheme stock book

4.1 How do I complete my stock book?

Example:

5. Global Accounting

If you do not keep all the records required to operate Global Accounting you cannot use the scheme and have to pay VAT on the full selling price. The record keeping requirements are described at section 6.

5.1 What is Global Accounting?

Global Accounting is an optional simplified variation of the normal Margin Scheme and is particularly beneficial if you are dealing in bulk volume, low value items. If you buy and sell such items and you are unable to maintain the detailed records described in section 3, you should consider using Global Accounting.

Under the normal Margin Scheme, VAT is accounted for on the profit margin achieved on the sale of an individual item. However, under Global Accounting VAT is accounted for on the profit margin achieved on total eligible sales less total eligible purchases in a period.

5.2 What goods can I include in Global Accounting?

You can include most items which are eligible for sale under the Margin Scheme (see paragraph 25.1) which have a purchase price of **£500 or less per item.**

5.3 Which goods cannot be included in Global Accounting?

The following goods cannot be included in Global Accounting irrespective of their purchase price:

- aircraft;
- boats and outboard motors;

- caravans and motor caravans;
- horses and ponies; and
- motor vehicles including motorcycles - except those broken up for scrap (see paragraph 5.4).

5.4 Can I use Global Accounting for the sale of scrap?

Motor vehicles which are eligible for sale under the Margin Scheme may be included in Global Accounting if they are broken up and sold on as scrap. You must keep the normal commercial documentation to show that the vehicle no longer exists and that the scrap parts are therefore eligible for Global Accounting.

Where a motor vehicle has already been entered into your second-hand stock book you should close the entry and transfer the details to your Global Accounting purchase records.

If you purchase a scrap motor vehicle for more than £500 you can still use Global Accounting for disposal of the components. However, any individual component valued at over £500 must be excluded from Global Accounting. If you are charged VAT separately when you buy a vehicle you cannot sell any scrap parts from that vehicle under Global Accounting or under the Margin Scheme.

5.5 What should I do when I start to use the scheme?

When you start using Global Accounting you may find that you already have stock on hand which is eligible for sale under the scheme. Under Global Accounting you must calculate your total purchases at the end of the first period and you can include the value of your stock on hand in this amount. Paragraph 5.6 explains how you should value your stock on hand.

If you do not take into account stock on hand you will be paying VAT on the full selling price rather than on the margin of the goods.

5.6 How do I value my stock on hand?

If you wish to include the purchase value of stock on hand in the total purchases at the end of your first VAT period, you must be able to identify stock which is eligible for Global Accounting and the purchase value of that stock. You must normally do this by using the values shown on original purchase invoices.

However, if you are newly registered and do not have original purchase invoices you may determine the purchase value using another method. There is no set way of doing this but you must be able to demonstrate satisfactorily to us that the method used produces a fair and reasonable total. You must retain evidence of the method used with your other Global Accounting records for 6 years.

Remember, any goods bought on an invoice showing VAT separately are not eligible for resale under the scheme.

5.7 How do I work out the VAT due under Global Accounting?

Under Global Accounting, VAT is calculated at the end of each tax period. Because you can take account of opening stock in your scheme calculations you may find that a negative margin is produced at the end of several periods, that is your total purchases exceed your total sales. In such cases no VAT is due but you must carry forward the negative margin to the next period as in the following example:

Period one		
(a)	Calculate total purchase value of stock on hand	= £10,000
(b)	Add up total purchases from your purchase summary	= £2,000
(c)	Add up total sales from your sales summary	= £8,000
(d)	Margins = c - (a + b) = £8,000 - £12,000	= (£4,000)

Because a negative margin is produced no VAT is due. However, this negative margin can be carried forward to the next period as follows:

Period two		
(a)	Negative margin brought forward from previous period	= £4,000
(b)	Add up total purchases in your second period	= £1,000
(c)	Add up total sales in your second period	= £7,000
(d)	Margin = c - (a + b) = £7,000 - £5,000	= £2,000
(e)	VAT due = margin (£2,000) x VAT fraction (7/47ths)	= £297.87

There is no negative margin to carry forward. Therefore, in the third period VAT would be calculated on the profit margin of the total sales less the total purchases.

A negative margin can only be offset against the next Global Accounting margin. It cannot be offset against any other figure or record.

You must keep copies of these calculations with your other Global Accounting records for 6 years.

5.8 Can I use Global Accounting for bulk purchases and collections?

You can use Global Accounting for bulk purchases even if the combined purchase price is over £500. But, if any individual item has a purchase value of over £500 you must exclude that item from Global Accounting and only include the remaining items. Items valued at over £500 can be sold under the normal Margin Scheme provided you can meet the record-keeping conditions detailed in section 3. You should ensure that any such items are identified and fully described on your purchase invoice. Alternatively you may sell the item under normal VAT rules.

5.9 Can I split collections?

You may split collections of items such as stamp collections and either sell items separately or form other collections provided all items are eligible for Global Accounting. Similarly you may combine two or more items to produce only one item for resale, for example by using one item as a spare part for another.

However, if you purchase an eligible item for £500 or more, and the item is made up of several components valued at less than £500 you cannot use Global Accounting if you sell the item in the same state as it was purchased. For example you may purchase a tea set which includes many pieces each valued at less than £500. But, if you buy the item as a “tea set” and sell it as a “tea set” you are selling one item. Because the tea set was purchased for more than £500, you cannot use Global Accounting. If the result of combining two or more eligible items results in an item of a different nature, the new item will not be eligible for the scheme.

6. Global Accounting – records and accounts

6.1 What records do I need to keep?

You do not need to keep all the detailed records which are required under the normal Margin Scheme - for instance you do not have to maintain a detailed stock book. Global Accounting records do not have to be kept in any set way but they must be complete, up to date and clearly distinguishable from any other records. You must keep records of purchases and sales as described in the following paragraphs together with workings used to calculate the VAT due. You must keep all your records for 6 years.

If you are unsure about how to maintain your Global Accounting records you should ask your local VAT Business Advice Centre.

6.2 What must I do when buying goods under Global Accounting?

The following text has the force of law
When you buy goods which you intend to sell under Global Accounting you must: • check that the goods are eligible for Global Accounting; • obtain a purchase invoice. If you buy from a private person or an unregistered dealer you should make out the invoice at the time you buy the goods. If you buy from another VAT registered dealer the dealer must make out the invoice at the time of sale and certify that it is not a tax invoice; and • enter the purchase details of the goods in your Global Accounting purchase records. The purchase price must be the price on the invoice which has been agreed between you and the seller.

You cannot use the scheme if an amount of VAT is shown on the invoice.

6.3 What details must be included on purchase invoices?

The text below has the force of law
Purchase invoices must include: • your name and address; • the seller's name and address; • invoice number; • date of transaction; • description of goods (this must be sufficient to enable us to verify that the goods are eligible for Global Accounting, for example "four tables, ten chairs" - "assorted goods" is not acceptable); • total price, you must not show VAT separately; and • an endorsement stating "Global Accounting invoice".

6.4 What must I do when selling goods under Global Accounting?

If you have complied with the purchase conditions above you may use Global Accounting for the sale of the goods by:

- recording the sale in your usual way, for example, by using a cash register;

- issuing a sales invoice for sales to other VAT registered dealers and keeping a copy of the invoice; and

- transferring your daily takings for eligible goods and/or totals of copy invoices to your Global Accounting sales record or summary (see paragraph 6.6).

The text below has the force of law

You must be able to distinguish between sales made under Global Accounting and other types of transactions at the point of sale.

6.5 What details must I include on sales invoices?

The boxed text below has the force of law

You must issue a sales invoice to other VAT registered dealers. These invoices and any other Global Accounting sales invoice you issue must show the following details:

- your name, address and VAT registration number;
- the buyer’s name and address;
- invoice number;
- date of sale;
- description of goods (this must be sufficient to enable us to verify that the goods are eligible for Global Accounting, for example “four tables, ten chairs” - “assorted goods” is not acceptable);
- total price - you must not show VAT separately; and
- an endorsement stating “Global Accounting invoice”.

If you are selling an item for more than £500 and do not wish to disclose to the purchaser that you bought the item under Global Accounting, you may choose to use the following declaration on your sales invoice - **“Input tax deduction has not been and will not be claimed by me in respect of the goods sold on this invoice”.** Whichever declaration you use, we must be able to distinguish your Global Accounting records from any other records.

6.6 What details should I include in my purchase and sales summaries?

The text below has the force of law

Although you do not have to keep your purchase and sales records or summaries in any particular way, they must include the following details taken from your purchase invoices and any sales invoices you may issue:

- invoice number;
- date of purchase/sale;
- description of goods (this must be sufficient to enable us to verify that the goods are eligible for Global Accounting, for example “four tables, ten chairs” - “assorted goods” is not acceptable); and
- total price.

Paragraph 5.7 gives an example of how you should work out the VAT due at the end of each period.

6.7 What if I stop using the scheme or transfer goods as a going concern?

The text below has the force of law

If you cease to use Global Accounting for any reason - for example you may deregister or transfer your business as a going concern - you must make a closing adjustment to take account of purchases for which you have taken credit, but which have not been sold (your closing stock on hand). The adjustment required in this paragraph does not apply if the total VAT due on your stock on hand is £1,000 or less.

In the final period for which you are using the scheme, you must add the purchase value of your closing stock to your sales figure for that period. In this way you will pay VAT (at cost price) on stock for which you have previously had credit under the scheme. The following is an example of a closing adjustment under Global Accounting:

At the end of the period calculate:

(a) Value of purchases during the period - £5,000

(b) Value of sales during the period - £10,000

(c) Purchase value of closing stock - £ 8,000

(d) Add purchase value of closing stock to sales for period (c + b) - £18,000

(e) Subtract purchases in this period from sales (d - a) - £13,000

(f) VAT due on margin (e x 7/47ths) - £1,936.17

You must make a similar adjustment if you transfer goods as part of a transfer of a going concern (TOGC). In that case you should add the purchase value of goods included in the scheme to your sales figure for the period in which the TOGC takes place. This adjustment is separate from the actual TOGC which is not subject to VAT.

6.8 Do I need to adjust my purchase records for items sold outside the scheme?

If goods, already included in your Global Accounting purchase records, are sold outside the scheme, for example exported goods, you must adjust your records accordingly.

When you add up your purchases at the end of the period, you must reduce the total by the purchase value of the goods being sold outside the scheme. Because you may not know the exact purchase value of an item, for example the goods may have been part of a bulk purchase, you must apportion a value. There is no set way of doing this but your method must be fair and reasonable and you must be able to demonstrate to us how the value was determined.

You must retain any such evidence and calculations with your records for 6 years.

6.9 How do I treat stolen or destroyed goods?

The text below has the force of law
Any loss of goods by breakage, theft or destruction must be adjusted by the deduction of their purchase price in your Global Accounting purchase record.

6.10 How do I treat repairs and restoration costs?

You may reclaim any VAT you are charged on the cost of business overheads, restoration or repair costs etc as input tax subject to the normal rules. However, you must not add any of these costs to the purchase price of the eligible goods you sell under the scheme.

6.11 How do I treat Global Accounting invoices in foreign currencies?

Global Accounting invoices will normally only show a total price for the goods you buy and sell under the scheme. But individual items with a purchase value over £500 are not eligible for this scheme and you will need to deduct the value of such items from the purchase invoice total. To do this you should convert any total value in foreign currency (including euros) into sterling and then apportion this figure so as to exclude the item or items with individual purchase values over £500. The net purchase amount in sterling must be entered in your purchase records.

If you issue a Global Accounting sales invoice you must show the sterling equivalent of the total value of the goods. But, even if you sell more than one item on the same invoice, you need only show the total foreign currency and sterling price on that invoice and enter the sterling amount in your sales record.

To convert amounts in foreign currencies you must use one of the methods outlined in Notice 700 The VAT Guide. But whatever method you adopt, the exchange rate to use is that current at the time of supply by, or to, you.

7. The Auctioneers' Scheme - basic principles

7.1 How does an auctioneer account for VAT on the sale of eligible goods?

If an auctioneer sells eligible goods (see paragraph 25.1) and invoices in his own name he may either:

- account for VAT under the Auctioneers' Scheme; or

- apply the rules for invoicing as an agent (see paragraph 13.2)

This section and sections 8 to 11 explain the detailed rules which apply to auctioneers operating the Auctioneers' Scheme.

Section 12 contains information about how a business using the Margin Scheme or Global Accounting must treat purchases and sales of eligible goods through an auctioneer.

7.2 How does the Auctioneers' Scheme work?

The Auctioneers' Scheme is a variation of the Margin Scheme. It allows auctioneers to account for VAT on a margin, the calculation of which involves:

- adding to the hammer price the cost of the auctioneer's services charged to the buyer; and

- deducting from the hammer price the cost of the auctioneer's services charged to the seller.

Paragraph 7.4 provides full guidance on how to calculate the VAT due under the Auctioneers' Scheme.

If you do not keep all the records referred to, you cannot use the scheme and you may have to pay VAT on the full selling price under the normal VAT rules for agents. Further information on those rules can be found in Notice 700 The VAT Guide.

It is important that you check with the seller before the sale whether the goods are eligible for inclusion in the Auctioneers' Scheme.

The Auctioneers' Scheme and its conditions are for the purposes of calculating your VAT liability and do not affect the legal status of agents or the contractual relationships between auctioneers, vendors and buyers.

7.3 When can the Auctioneers' Scheme be used?

To use the scheme the goods must be eligible (see paragraph 25.1) and the seller must be:

- not registered for VAT; or

- a VAT registered person supplying goods under the Margin Scheme or Global Accounting; or

- an insurance company selling eligible Margin Scheme goods which they have acquired as a result of an insurance claim provided that they are sold at auction in the same state; or

- a finance house selling eligible Margin Scheme goods which they have repossessed provided that they are sold at auction in the same state.

The text below has the force of law
You must also comply with the invoicing requirements which are explained at section 8.

7.4 How do I calculate VAT on goods I sell under the Auctioneers' Scheme?

As explained in paragraph 7.2, under the Auctioneers' Scheme a margin is created by taking into account charges for services the auctioneer makes to the seller and the buyer. To calculate the amount of VAT payable on an individual sale the auctioneer must work from the hammer price:

- **Purchase price:** the hammer price less commission charges (if any) the auctioneer makes to the seller. Specific services other than commission supplied to the seller must be excluded.
- **Selling price:** the hammer price plus any charges for services the auctioneer makes to the buyer (for example, buyer's premium or other commission, incidental expenses such as packing, transport and insurance costs).
- **Margin:** deduct the purchase price from the selling price.
- **Output tax:** multiply the margin by the VAT fraction (7/47ths on a VAT rate of 17.5%).

Paragraph 7.5 explains the charges that can be included in your scheme calculations.

7.5 Which charges do I include in my Auctioneers' Scheme calculations?

Vendor's commission and buyer's premium must always be included in your Auctioneers' Scheme calculations. In addition, you must include any other charges made to the buyer of the goods. These additional charges may include incidental expenses such as packing, transport and insurance costs. The only exception to this rule is if the services are a separate supply in their own right. You must make sure that:

- charges included in your scheme calculations do not show VAT separately; and

- invoices clearly show (for the benefit of both seller and buyer) the respective selling and purchase prices to be used in scheme calculations, (indemnity fees should not be included as part of the purchase price if the insurance policy is provided by an approved insurance company).

Any charges made to the buyer which are not included in your scheme calculations must be invoiced separately and if applicable, VAT charged under the normal rules.

7.6 How do I treat sales to other EC Member States?

Sales made under the Auctioneers' Scheme to another Member State are treated in the same way as sales within the UK. The sales are liable to tax in the UK and no further tax is due in the country of destination. Goods sold under the scheme will not be subject to acquisition VAT when they are taken into another EC Member State and should not be included on EC sales lists or boxes 8 and 9 of VAT returns. See section 15 for further information on buying and selling within the EC.

7.7 What if I sell zero-rated goods?

Under the Auctioneers' Scheme a margin is created from the supply of services made to the seller and the buyer. These services are not separately charged with VAT. If you are selling zero-rated goods, for example antique books, the auctioneer's margin is also zero-rated. In the VAT due column of your stock record, insert "nil".

7.8 How do I treat goods supplied for export?

Goods supplied for export under the Auctioneers' Scheme can be zero-rated provided you obtain proof of export as detailed in Notice 703 Exports and removals of goods from the United Kingdom. You should calculate your margin in accordance with paragraph 7.4 and once you receive evidence of export you may zero-rate the margin. In the VAT due column of your stock record, insert "nil".

7.9 How do I work out the time of supply?

Goods sold under the Auctioneers' Scheme are deemed, for VAT purposes, to be both supplies to the auctioneer and from the auctioneer. There is a common tax point for both supplies and this is determined by reference to the actual sale of the goods at auction. The tax point for both supplies will be the earlier of:

- the handing over of the goods by the auctioneer to the buyer; or

- receipt of payment by the auctioneer.

7.10 What about selling goods on behalf of a Pawnbroker?

You may use the Auctioneers' Scheme to sell eligible goods on behalf of a pawnbroker provided:

- the pawn value is greater than £75 (£25 before 1/5/98); and
- the pledgor is not VAT registered.

If the pledgor is VAT registered you must account for VAT on the full selling price so it is in your own interest to check the status of the pledgor with the pawnbroker.

7.11 Can I use the Auctioneers' Scheme for the sale of new goods on behalf of non-taxable persons?

An Extra Statutory Class Concession (ESCC), introduced with effect from 1 January 1999, allows the Auctioneers' Scheme to be used for the sale of all goods grown, made or produced (including bloodstock or livestock reared from birth) by non-taxable persons.

As a condition of using the concession, you must obtain a signed certificate from the vendor giving the vendor's name and address, a description of the goods and confirmation that he/she is not registered for VAT nor required to be registered for VAT. You may incorporate the certificate into your existing sales entry in agreement with your local VAT Business Advice Centre. See section 10 for an example of the certificate.

8. The Auctioneers' Scheme – records and accounts

8.1 What invoices must I issue for sales made under the Auctioneers' Scheme?

The text below has the force of law
For sales made under the scheme, you must issue an invoice to the buyer and the seller. You must issue to the seller an invoice or statement which includes all the details set out at paragraph 3.5 and you must issue to the buyer an invoice or other document which includes all the details set out at paragraph 3.7. Your purchase invoice/statement and sales invoice must also show:

Purchase Invoice / statement	Sales invoice
The hammer price of the goods.	**The hammer price** of the goods.
Any commission charges made to the seller. You must not show a separate amount of VAT on these charges.	**Any charges for services** (for example buyer's premium) made in connection with the sale of the goods (see paragraph 7.5). You must not show a separate amount of VAT on any of these charges.
The net amount due to the seller (this amount will form your purchase price and the selling price for a VAT registered dealer using the Margin Scheme).	**The amount due from the buyer** (this amount will form your selling price and will be the purchase price for a VAT registered dealer using the Margin Scheme).

If the seller and/or buyer are using the Margin Scheme, their respective selling and purchase prices must be clear from the invoices you issue. This means that the auctioneer should allocate any charges included under the Auctioneers' Scheme against each lot.

If you are unsure about any of the invoicing and record-keeping requirements you should contact our National Advice Service.

8.2 Do I have to keep a stock record of goods purchased and sold under the Auctioneers' Scheme?

The text below has the force of law
Although you must always keep stock records you do not have to maintain a stock book which is strictly in accordance with the requirements set out at paragraph 3.3. However, if you do not, you must retain sufficient alternative records which provide the same information set out in paragraph 3.3. Examples may include: • entry forms; • sales catalogues; • copies of lots and sales of the day; and • copies of sales and purchase invoices.

8.3 Can I include scheme and non-scheme supplies on the same invoice?

If you sell goods to the same buyer under the Auctioneers' Scheme and under normal accounting, you can include each item on one invoice. If you do choose to include the sales on a single invoice you must ensure that each supply can be clearly distinguished. However, to avoid any confusion for the buyer, you are advised to issue separate invoices.

The buyer must be able to establish the sales price for those items sold under the Auctioneers' Scheme. This amount will form the purchase price for VAT registered dealers using the Margin Scheme.

8.4 Can I re-invoice goods under the normal rules?

If goods have been sold under the Auctioneers' Scheme and the buyer subsequently decides that they wish to treat the transaction outside the scheme - preferring to pay VAT separately on the hammer price and other charges - you may re-invoice for the transaction under the normal VAT rules provided that:

- you are able to comply with all the relevant VAT regulations for the substitute transaction; and
- at the time of the amendment both you and the buyer hold all the original records relating to the transaction.

If you both agree to this re-invoicing and can meet these conditions you must cancel the first entry in your records and cross-refer to the amended transaction. The replacement invoice which you issue to the buyer must clearly refer to the original transaction and state that it is cancelled and that the buyer should amend their VAT account accordingly.

Re-invoicing cannot be undertaken more than three years after the due date of the VAT return on which the original supply was accounted for. This is because input tax cannot be claimed under the three year cap rules.

8.5 How do I treat Auctioneers' Scheme invoices in foreign currencies?

Invoices issued in foreign currencies under the Auctioneers' Scheme must show the sterling equivalent of each element of the invoice - for example the hammer price of the goods and the amount of commission or other charges due - and not just the total value of the supplies made.

9. Example calculations for the Auctioneers' Scheme

9.1 How do I work out the VAT due under the Auctioneers' Scheme?

In these examples:

- the hammer price is £1,000;

- the rate of VAT is 17.5% and the VAT fraction is 7/47ths;
- the commission is a VAT inclusive rate of 11.75%, that is 10% plus VAT; and
- buyer's premium is a VAT inclusive rate of 17.625%, that is 15% plus VAT

Example 1 - Auctioneer selling goods under the Auctioneers' Scheme and charges commission to seller, no buyer's premium or other charges to the buyer.		
(a)	Hammer price	= 1,000.00
(b)	Commission -Commission rate times hammer price 11.75% X 1,000	= 117.50
(c)	Purchase price - Hammer price less commission (a - b) 1,000 - 117.50	= 882.50
(d)	Selling Price -Hammer price (a)	= 1,000.00
(e)	Margin - Selling Price less purchase price (d - c) 1,000.00 - 882.50	= 117.50
(f)	Output Tax - Margin times VAT fraction 117.50 X 7/47ths	= 17.50
Example 2 - Auctioneer selling goods under the Auctioneers' Scheme and charges commission to seller and buyer's premium		
(a)	Hammer price	= 1,000.00
(b)	Commission - Rate of commission times hammer price 11.75% X 1,000	= 117.50
(c)	Purchase price - Hammer price less commission (a - b) 1,000 - 117.50	= 882.50
(d)	Buyer's premium -Rate of buyer's premium times hammer price 17.625% X 1,000	= 176.25
(e)	Selling Price - Hammer price plus buyer's premium (a + d) 1,000 + 176.25	= 1,176.25
(f)	Margin - Selling Price less purchase price (e - c) 1,176.25 - 882.50	= 293.75
(g)	Output Tax - Margin times VAT fraction 293.75 X 7/47ths	= 43.75
Example 3 - Auctioneer selling zero-rated goods (such as antique books) under the Auctioneers' Scheme and goods sold for export from the European Community. Calculation includes vendor's commission and buyer's premium.		

(a)	Hammer price	= 1,000.00
(b)	Vendor's commission	= 117.50
(c)	Buyer's premium	= 176.25
(d)	Purchase price (a - b)	= 882.50
(e)	Selling price (a + c)	= 1,176.25
(f)	Margin (e - d)	= 293.75
(g)	Output tax - (zero-rated)	= NIL
Note: In the case of goods supplied for export from the European Community, the auctioneer must obtain proof of export before zero-rating can be applied, Notice 703 Exports and removals of goods from the United kingdom refers.		
Example 4 - Auctioneer sells eligible goods under the Margin Scheme and charges commission to the seller and buyer's premium		
(a)	Hammer price	= 1,000.00
(b)	Buyer's premium	= 176.25
(c)	Purchase price (a)	= 1,000.00
(d)	Selling price (a + b)	= 1,176.25
(e)	Margin (d - c)	= 176.25
(f)	Output tax (e x 7/47ths)	= 26.25
Note: If an auctioneer sells goods under the Margin Scheme, commission is charged and invoiced separately to the seller and VAT accounted for on the full amount (in this example £100 + VAT at 17.5% - total commission = £117.50).		
Example 5 - Auctioneers' Scheme option for imported works of art, antiques or collectors' items. Calculation includes vendor's commission and buyer's premium.		
(a)	Auctioneer pays import VAT (at 5%) on behalf of third party vendor from USA (goods valued at import at £500)	= 25.00
(b)	Hammer price	= 1,000.00
(c)	Buyer's premium	= 176.25
(d)	Vendor's commission	= 117.50
(e)	Purchase price (b - d)	= 882.50

(f)	Selling price (b + c)	= 1,176.25
(g)	Margin (f - e)	= 293.75
(h)	Output tax (g x 7/47ths)	= 43.75
The import VAT incurred by the auctioneer (£25.00) may be recouped from the vendor and should not be included in Auctioneers' Scheme calculations.		

10. Example of vendor's certificate for goods sold under the Auctioneers' Scheme on behalf of non-taxable persons

Referred to in paragraph 7.11

AUCTIONEERS' SCHEME FOR SECOND-HAND GOODS, WORKS OF ART, ANTIQUES AND COLLECTORS' ITEMS

Extra statutory concession

Vendor's Certificate for goods grown, made or produced and sold at auction on behalf of non-taxable persons

I (full name)

………………………………

of (address)

…………………………………………………………………………………………….

…………………………………………………………………………………………….

…………………………………………………………………………………………….

declare that I am not registered or required to be registered for Value Added Tax and that the goods detailed below are to be sold at auction on my behalf by (auctioneer's name).

Description of Goods

…………………………………………………………………………………………….

Date of Sale (to be completed by auctioneer)

…………………………………………………………………………………………….

Signature of vendor

…………………………………………………………………………………………….

Signature of Auctioneer

……………………………………………………………………………………………….

Date

……………………………………………………………………………………………….

11. Auctioneers' Scheme option for imported works of art, antiques and collectors' items

11.1 What is the Auctioneers' Scheme option for imported goods?

Goods which have been obtained with VAT charged on their full value are normally ineligible for the Auctioneers' Scheme. However, if you are an auctioneer and you act in your own name, you may opt to use the Auctioneers' Scheme to deal with works of art, antiques and collectors' items which you have imported yourself (as principal on behalf of a third party) for onward sale in your own name. You may use the scheme despite VAT having been charged on the importation of the goods. The conditions for exercising the option are set out in paragraph 11.3

You can find details of import procedures and special arrangements for supplies of temporarily imported (TI) goods in Notice 702 Imports.

11.2 Does the option apply to works of art obtained from creators or their heirs?

Yes. If you act in your own name, you may opt to use the Auctioneers' Scheme for works of art obtained (that is supplied in the UK or acquired from another Member State) from creators or their heirs for onward sale in your own name.

You may use the scheme despite VAT having been charged on the acquisition or supply of the goods. The conditions which must be met are described at paragraph 11.3.

To convert amounts in foreign currencies you must use one of the methods outlined in Notice 700 The Vat Guide. But, whatever method you adopt, the exchange rate to use is that current at the time of supply by, or to, you.

11.3 Are there conditions for selling imported goods and works of art?

Paragraphs 11.1 and 11.2 explain that you can use the Auctioneers' Scheme for the sale of imported works of art, antiques and collectors' items and for works of art obtained (that is supplied in the UK or acquired from another Member State) from creators or their heirs. If you opt to use the scheme you must meet the following conditions:

- you must notify your local VAT Business Advice Centre in writing that you are going to take up the option, specifying the date from which you will be applying it;
- you must exercise the option for a period of at least 2 years and thereafter notify your local VAT Business Advice Centre in writing as and when you wish to cease to use the scheme;
- you must use the scheme in respect of all transactions and goods listed in paragraphs 11.1 and 11.2, not just in respect of certain categories of transactions or certain categories of goods; and
- if, having exercised the option, you decide to sell outside the scheme any goods covered by the option (for example if you export the goods), you are not entitled to recover any input tax on those goods until the period in which you account for VAT on their sale.

If you do not take up this option you should continue to account for VAT in accordance with the general rules for auctioneers.

11.4 What is my purchase price when I use the Auctioneers' Scheme?

(a) **Imported works of art, antiques and collectors' items**

When you opt to use the Auctioneers' Scheme for imported works of art, antiques or collectors' items on behalf of an overseas seller, the option will apply to imports at a reduced rate of 5% (up to 26 July 1999 the rate was 2.5%). You must not reclaim the import VAT as input tax. Your purchase price for the Auctioneers' Scheme is calculated in exactly the same way as detailed in paragraph 7.4. That is:

- the hammer price less any commission charges made to the seller.

The import VAT you incur should not be included in your Auctioneers' Scheme calculations although you may wish to recoup this amount separately from the seller.

(b) **Works of art obtained from the creator or his heirs**

When you opt to use the Auctioneers' Scheme for works of art obtained from the creator or his heirs you must not reclaim any VAT charged by the supplier. You must calculate your purchase price in accordance with paragraph 7.4. Because the creator or heir will have to account for output tax on the full hammer price they may ask you to sell the item under the normal Margin Scheme Option. In such cases any invoice / statement you issue for charges for your services must show VAT at the standard rate separately. This will enable the supplier to reclaim the input tax on those charges. Your purchase price under the normal Margin Scheme Option will be the hammer price only.

See section 9 for example calculations for the Auctioneers' Scheme.

12. Buying and selling at auction

12.1 What should I do if I buy eligible goods at auction?

If you are registered for VAT and you wish to use the Margin Scheme or Global Accounting for the onward sale of goods purchased at auction you must:

- check that the goods are eligible for onward sale under the Margin Scheme. You should be able to find this out from the auctioneer's sales catalogue. If VAT is to be charged separately on the hammer price of the goods, you cannot use the Margin Scheme or Global Accounting for the onward sale; and

- follow the record keeping requirements detailed in section 3 or section 6.

12.2 What is the purchase price of eligible goods I buy at auction?

Your purchase price will be:

- **the hammer price of the goods plus charges for services** (these charges must not show VAT separately) and should be clearly identified on the sales invoice issued to you by the auctioneer.

The invoice will itemise, for each lot, the hammer price of the goods and any charges for services (for example, buyer's premium). The total of these amounts (that is the amount due from you to the auctioneer) will be your purchase price for the purpose of the Margin Scheme or Global Accounting and this is the amount that you must show in your stock book. Any other charges for services on which VAT is shown separately must not be included as part of your purchase price.

Indemnity fees shown separately on the invoice should not be included in your purchase price.

If you are in any doubt about the correct purchase price for goods supplied under the Auctioneers' Scheme you should check with the auctioneer.

12.3 Will an invoice include scheme and non-scheme goods?

In some circumstances you may receive a single invoice from the auctioneer, showing the hammer price of the goods and charges for inclusion in your scheme calculations as well as charges on which VAT is shown separately. To avoid confusion you may wish to ask the auctioneer to provide you with a separate invoice for these charges.

Either way, you can reclaim the VAT shown under the normal rules but you must make sure that you do not add the value of these charges to your purchase price for the purposes of the Margin Scheme.

12.4 What should I do if I sell eligible goods at auction?

You must tell the auctioneer before the sale is due to take place exactly how you wish to treat the sale - that is under the Auctioneers' Scheme, Margin Scheme or Global Accounting. If the auctioneer uses the **Auctioneers' Scheme** he will issue an invoice/statement which will include:

- the hammer price of the goods;
- his commission charges; and
- the net amount payable to you.

None of these amounts should show VAT separately. Any other charges for services must be invoiced separately with VAT, if applicable, shown on the full amount of each charge.

Alternatively, you can ask the auctioneer to sell the goods under the normal **Margin Scheme**. In these circumstances, the auctioneer will issue an invoice/statement which will only include:

- the hammer price of the goods - VAT must not be shown separately on this amount.

His commission charges and any other charges for his services must be invoiced separately with VAT, if applicable, shown on the full amount of each charge. You can reclaim the VAT on such charges under the normal rules.

12.5 What is the selling price of eligible goods I sell at auction?

Your selling price for the purpose of the Margin Scheme will be clearly identifiable on the invoice/statement issued by the auctioneer and may be greater than the amount remitted by the auctioneer. If the auctioneer has supplied the goods under the **Auctioneers' Scheme** the hammer price of the goods and commission charges will not show VAT separately. Your selling price will be the net amount, that is:

- the hammer price less the commission charge.

If the auctioneer makes other charges, these must be invoiced separately and, if applicable, VAT charged under the normal rules. You must not include these charges as part of your selling price. You will, however, be able to reclaim the VAT charged.

If, in agreement with the auctioneer, you arrange for the goods to be sold by the auctioneer under the normal Margin Scheme as it applies to agents, your selling price will be calculated in a different way. If the auctioneer uses the normal **Margin Scheme:**

- the hammer price only will form your selling price.

Any other charges that the auctioneer makes will be invoiced or itemised separately and, if applicable, VAT charged under the normal rules.

You should check with the auctioneer if you are in any doubt about the correct selling price for goods sold at auction.

13. Agents and the Margin Scheme

13.1 How do I treat sales through a third party?

It is quite common for dealers to sell goods for or on behalf of other dealers or private sellers. The arrangements may include retaining a percentage of the selling price or making a separate charge to the owner. In either case, the seller is acting as the agent of the dealer or individual who owns the goods and the parties must follow the rules in paragraphs 13.2 and 13.3 below.

If different parties own shares in the goods or if different parties have bought goods jointly for resale see section 14.

13.2 Can agents use the Margin Scheme?

Yes. The following guidance applies to both dealers and auctioneers who sell goods in their own name.

If you are an agent acting in your own name and using the Margin Scheme, you must treat the supply as a supply to you and a supply by you. When goods are sold by an agent, the Margin Scheme treatment will depend on the way the agent has opted to account for his commission. The following paragraphs outline the Margin Scheme consequences of each option.

(a) **How the owner or principal calculates his margin.** If your agent sells eligible goods on your behalf in his own name, you can still account for your sale under the Margin Scheme. Your purchase price will be calculated in the normal way (paragraph 2.10). Your selling price will depend on the way your agent has accounted for his sale and will be equivalent to the agent's purchase price.

(b) **How the agent calculates his margin.** Just as an agent selling goods outside the Margin Scheme has two options depending on whether he invoices his charges to the buyer separately, the agent selling eligible goods has two options.

Option 1:

If you invoice your charges to the seller or principal separately those charges will be subject to VAT and you calculate your margin for VAT as follows:	
Purchase price	The gross amount realised by you before any deductions are made.
Selling price	The total price for the goods including any incidental expenses and commission you charge to the buyer. Other optional charges not directly linked to the goods such as packing, transport and insurance costs should be charged outside the Margin Scheme under the normal VAT rules.
Margin	The difference between the purchase price and the selling price.
VAT due	Apply the VAT fraction (currently 7/47ths) to the margin (see paragraph 2.11).

Option 2:

If you use the option in Information Sheet 3/2000 to include your charges to the seller in your sale of the goods you calculate your margin for VAT as follows:	
Purchase price	The gross amount realised by you less commission charged to the seller - and not including any charges made to the buyer.
Selling price	The total price for the goods including any incidental expenses and commission you charge to the buyer. Other optional charges not directly linked to the goods such as packing, transport and insurance costs should be charged outside the Margin Scheme under the normal VAT rules.

Margin	The difference between the purchase price and the selling price.
VAT due	Apply the VAT fraction (currently 7/47ths) to the margin (see paragraph 2.11).

The method shown in option 2 mirrors the method used by auctioneers to calculate their purchase and selling prices under the Auctioneers' Scheme (see section 7).

13.3 What records must an agent keep?

If you are an agent selling goods under the Margin Scheme and you issue an invoice in your own name, you must keep the records described at paragraph 3.1.

If you are selling goods on behalf of a dealer you must ensure that you are provided with an invoice which includes all the details described at paragraph 3.5. This invoice should show the gross amount for the goods excluding any commission charges.

14. Shares and joint purchases

14.1 How do I treat shares?

If you have an eligible item in stock and you sell a share in it, no output tax is due on the sale of the share and you must not issue a tax invoice to the purchaser. When you sell an item in which other people own shares, you must account for the full amount of VAT due on the sale and not just your share. You must issue statements to the other shareholders showing their share of the proceeds of the sale, excluding VAT.

14.2 How do I treat joint purchases?

If you and other dealer(s) jointly buy an eligible item for resale, you should use the following procedure.

When the item is bought:

Stage	Description
1	One of the joint buyers must keep the purchase invoice for the item showing all the details set out in paragraph 3.5.
2	Invoice the other joint buyers for their contribution towards the cost of the article, excluding VAT. Each invoice must be endorsed on the following lines: "This payment is your contribution towards the purchase of the above article. I shall be accounting for the full amount of VAT due under the scheme when it is sold".
3	Keep copies of these invoices and enter the sales details in the stock book.

4	Enter the purchase details of the item in the stock book. The purchase price will be the full joint purchase price.

14.3 What if goods are sold by the joint buyer who is shown as the purchaser?

When an article is resold by the joint buyer who is shown as the purchaser of the item he must:

Stage	Description
1	Issue, and keep a copy of, a sales invoice showing all the details set out in paragraph 3.7.
2	Enter the details of the sale in the stock book. The selling price is the full joint selling price and not just the original buyer's share of the proceeds.
3	Issue statements to the other joint buyers showing their shares of the proceeds of the sale, excluding VAT. They must be endorsed on the following lines – "This payment is your share of the proceeds of the sale of ………….. I am accounting for the full amount of VAT due on the sale under the scheme".

14.4 What if another joint buyer sells the goods?

If a joint buyer other than the original joint buyer sells the goods, he must:

Stage	Description
1	Obtain the purchase invoice for the goods.
2	Issue, and keep a copy of, a sales invoice showing all the details set out in paragraph 3.7.
3	Complete the stock book treating the purchase and sale of the article as being made entirely by himself. The purchase price is the full joint purchase price and the selling price is the full joint selling price.
4	Issue statements to the other joint buyers showing their shares of the proceeds of the sale, excluding VAT. They must be endorsed on the following lines – "This payment is your share of the proceeds of the sale of ………….. I am accounting for the full amount of VAT due on the sale under the scheme".

The joint buyer who has shown the purchase of the item in his stock book, must close the entry stating that VAT has been accounted for by another joint buyer. He should also cross-refer to the statement received from that joint buyer - stage 4 in the above table.

15. Buying and selling within the European Community

15.1 How does VAT apply to purchases from other EC Member States?

How you treat goods purchased from other Member States depends on how they were supplied. All Member States operate a Margin Scheme but you can only use the Margin Scheme for the onward sale of goods in the following circumstances:

- **Goods purchased from a private individual** - there will be no VAT due on these goods when they are brought into the UK. You can use the Margin Scheme or Global Accounting for the onward sale of these goods provided all the conditions of the scheme are met.

- **Goods purchased under a Margin Scheme from a registered business in another Member State** - as with transactions between UK VAT registered dealers, you can only use the Margin Scheme for goods purchased from dealers in other Member States, if the goods were supplied by that dealer under a Margin Scheme. All Member States operate a Margin Scheme and nearly all use a declaration on sales invoices to identify the transaction as a Margin Scheme sale. These declarations are reproduced at paragraph 16.1. However, in some Member States an invoice declaration is not mandatory and it is therefore very important that you check with your supplier that the goods are being sold under the Margin Scheme.

If you buy goods from a registered business in another Member State and the sales invoice does not bear a declaration but does show your VAT registration number, it is likely that the goods will not have been supplied under the Margin Scheme. In such cases you must account for acquisition tax in the UK and charge VAT on the full selling price of the goods when you sell them. Further details of such transactions can be found in Notice 725 The Single Market.

15.2 How do I deal with sales to other Member States?

Sales made under the Margin Scheme or Global Accounting to other Member States are treated in exactly the same way as sales within the UK. This means that VAT is due on the margin in the UK and you must issue a normal Margin Scheme sales invoice (see paragraph 3.7). If you are selling goods under the scheme to a registered dealer in another Member State there is no requirement to obtain that dealer’s registration number.

If you sell goods to a registered dealer in another Member State you can, in conjunction with that dealer, treat the sale outside the Margin Scheme. In such cases the sale can be zero-rated under the normal EC supply rules, see Notice 725 The Single Market.

Sales of eligible goods to EC private individuals can either be treated under the Margin Scheme or under the normal VAT arrangements, that is with VAT on the full selling price. Paragraph 15.4 explains the procedures for dealing with the purchase and sale of New Means of Transport.

15.3 How do I treat the transfer of my own goods?

Transfer of goods within the same legal entity from one EC Member State to another is deemed to be a supply of goods for VAT purposes.

If you transfer your own goods under one of the schemes in this notice to another EC Member State - for example if you take your own goods to another Member State to sell them on, or to use them in your business establishment there - you will not be required to account for VAT on the goods in the UK if you supply them to yourself at the price for which you obtained them. You do not have to account for acquisition VAT in the other Member State.

15.4 Can I use the Margin Scheme for the purchase and sale of new means of transport?

New means of transport are always liable to VAT in the Member State of destination. This means that any new means of transport that you purchase from, or sell to, another Member State will not be eligible for the Margin Scheme. Notice 725 VAT: The Single Market provides full details of the definitions of a new means of transport and the procedures to follow. Notice 728 VAT: Motor vehicles, boats, aircraft: intra-EC movements by persons not registrable for VAT gives information about the procedures which persons not registered for VAT should follow when they buy a new means of transport.

15.5 Do I have to complete EC sales lists and Intrastat?

You can find guidance on completion of your VAT return in paragraph 3.10. All VAT registered businesses making supplies of goods to businesses registered for VAT in other EC Member States, are required to complete lists (form VAT 101) of their EC supplies. But, if you supply goods under the schemes in this notice they will be subject to VAT in the UK and are therefore not eligible for zero-rating. Therefore, you should not include Margin Scheme transactions on an EC Sales list.

Intrastat is the system for collecting statistics on the trade in goods between EC Member States. As with EC Sales lists, because Margin Scheme goods are subject to VAT in the country of origin, there is no requirement to include Margin Scheme purchases or sales in boxes 8 and 9 of your VAT return or to complete a supplementary declaration.

You can find further information on intra-EC transactions in the following publications:

Notice 723 VAT: Refunds of VAT in the European Community and other countries

Notice 725 VAT: The Single Market

Notice 60 The Intrastat General Guide/The Customs Tariff

16. Invoice declarations for Margin Scheme supplies from other EC States

16.1 What declarations do other Member States use for Margin Scheme sales?

All declarations are mandatory unless otherwise indicated.	
Austria	Invoices may include the following declaration: ‘Differenzbesteuert gemäß §24 UStG 1994 (Margin Scheme supply per §24 UStG 1994) and / or ‘Berechtigt nicht zum Vorsteuerabzug’ (Input Tax may not be deducted). Neither declaration is mandatory. **Note:** For goods purchased from a registered business which are not being supplied under the Margin Scheme (see paragraph 15.1) Austrian businesses must include a declaration on their sales invoice, for example ‘Steuerfreie innergemeinschaftliche Lieferung gemäß Art 6§1 UStG1994’ (Tax-free intra-community supply per Art 6§1 UStG1994).
Belgium	‘Livraison soumise au regime particulier d’imposition de la marge beneficiaire - TVA non deductible’ (Supply subject to the special arrangements for taxation of the profit margin - VAT non-deductible).

Denmark	Either, ‘Varerne saelges efter de saerlige regler for brugte varer m.v.’ (Goods are sold in accordance with the special VAT scheme for second-hand goods) or ‘Prisen er en samlet pris, inkl. moms’ (The price is a total price including VAT) or ‘Momsbelobet, der er indeholdt i prisen, kan ikke fradrages som kobsmoms’ (The purchaser cannot deduct the input tax).
Finland	‘Marginaaliverotus, ei sisällä vähennettävää veroa’ (Margin scheme, does not include deductible tax).
France	Either ‘TVA incluse’ (VAT included) or ‘Prix TTC’ (Price inclusive of all taxes) or ‘Livraison effectuee dans le cadre de la 7eme directive’ (Supply made under the terms of the 7th Directive). However, none of these declarations are mandatory. **Note:** For goods purchased from a registered business which are not being supplied under the Margin Scheme (see paragraph 15.1) there is a compulsory statement which must be included on invoices issued by French businesses. This is “Exoneration TVA, article 262-ter-1 du code general des impots.” This is translated as “VAT Exemption, Article 262-ter-1 of the General Tax Code.”
Germany	There is no requirement for a declaration on Margin Scheme invoices.
Greece	Supply under the scheme of Article 36a of Law No 1642/86. (Contact your local VAT Business Advice Centre for an example of the Greek text).
Ireland	‘Margin Scheme - this invoice does not give the right to an input credit of VAT’. There is a separate declaration which must appear on invoices for sales of 2nd-hand cars - “Special Scheme - this invoice does not give the right to an input credit of VAT”.
Italy	Either ‘Operazione soggetta al regime del margine ai sensi dell’art. 36 del DL 23 febbraio 1995 No 41’ (Transaction subject to the margin scheme under the terms of Art. 36 of decree law 23.2.95 No 41) or ‘Operazione soggetta al regime del margine, ai sense dell’art. 36 del DL 41/95’ (Transaction subject to the margin scheme, under the terms of Art. 36 of decree law 41/95) or ‘IVA inclusa’ (VAT included).
Holland	‘Verkocht on der marge regeling’ (Sold under the margin scheme). This declaration is not mandatory.
Luxembourg	‘Regime particulier d’imposition de la marge beneficiare’ (Special arrangements for taxation of the profit margin).
Portugal	Either ‘IVA - bens em segunda mao’ (VAT - second-hand goods) or ‘IVA - Objectos de Arte’ (VAT - works of art).
Spain	‘Entrega con arreglo a lo dispuesto en la directiva 94/5/CE - IVA incluido’ (Supply in accordance with the provisions of Directive 94/5/EC - VAT included).

Sweden	Either ‘Begagnade varor’ (Second-hand goods) or ‘Vinstmarginalbeskattning’ (Margin scheme). Neither declaration is mandatory.

17. Imports and exports

17.1 Can I use the Margin Scheme for imported goods?

If you import goods from countries outside the European Community you will be charged VAT on the full value of those goods. This means you cannot use the Margin Scheme for the onward sale of those goods even if you do not reclaim the VAT charged. Similarly if you use a private person, one of your employees or any person connected with your business to collect goods on your behalf which have been imported into the EC, those goods are not eligible for the Margin Scheme.

The only exception to this rule relates to imported works of art, antiques and collectors’ items. You can opt to use the Margin Scheme (or the Auctioneers’ Scheme) for such items provided you comply with the conditions in section 18 (see section 11 for the Auctioneers’ Scheme).

17.2 Can I use the Margin Scheme when I export goods?

If you export eligible goods (see paragraph 25.1) to a destination outside the European Community, you may zero-rate the sale provided you meet the conditions which are set out in Notice 703 VAT Exports and removals of goods from the United Kingdom. If you can satisfy those conditions you should insert “nil” in the VAT due column of your stock book.

However, you cannot usually zero-rate an export of eligible goods if you sell the goods through an auctioneer or dealer who acts as an agent in their own name. This is because under the special rules for agents who act in their own name, the sale of the goods must be treated as a supply to the agent and a supply by the agent. This means that your sale of the goods has to be treated as a supply to the agent, rather than as a supply to the final purchaser. Your sale cannot therefore be treated as a zero-rated export unless the agent is located outside the EC.

18. Margin Scheme Option for imported works of art, antiques and collectors' items

18.1 What is the option for imported works of art, antiques and collectors' items?

Normally, goods that you import from countries outside the European Community bearing VAT on their full value are ineligible for inclusion in the Margin Scheme. However, you may opt to use the Margin Scheme or Auctioneers' Scheme (see section11) for imported works of art, antiques and collectors' items. If you do not opt to use the Margin Scheme you must resell the goods under the normal VAT rules. To use the option you must meet the conditions described in paragraph 18.3.

18.2 Does the option apply to works of art from creators or their heirs?

Yes. You may opt to use the Margin Scheme for works of art obtained (that is supplied in the UK or acquired from another Member State) from the creator or his heirs despite the fact that VAT will have been charged on their sale or acquisition. If you do not opt to use the Margin Scheme you must resell the goods under the normal VAT rules. To use the option you must meet the conditions described in paragraph 18.3.

18.3 What are the conditions for using the Margin Scheme Option?

To use the Margin Scheme Option:

- you must notify your local VAT Business Advice Centre in writing that you are going to take up the option, specifying the date from which you will be applying it;
- you must exercise the option for a period of at least two years and thereafter notify your local VAT Business Advice Centre in writing as and when you wish to cease to use the scheme;
- you must do so in respect of all transactions and goods listed in paragraphs 18.1 and 18.2, not just in respect of certain categories of transactions or certain categories of goods; and
- if, having exercised the option, you decide to sell outside the scheme any goods covered by the option (for example if you export the goods), you are not entitled to recover any input tax on those goods until the period in which you account for VAT on their sale – subject to the normal rules.

You can also use Global Accounting subject to the general conditions above and the normal Global Accounting rules detailed in section 5.

18.4 What is my purchase price when I use the Margin Scheme Option?

(a) **Imported works of art, antiques and collectors' items**

The option to use the Margin Scheme for imported works of art, antiques and collectors' items will cover imports at the reduced rate of 5% (up to 26/7/99 the rate was 2.5%). In these circumstances your purchase price will be the value for VAT at import, plus the import VAT (you must not recover the import VAT as input tax). When you sell the item you must calculate VAT on the margin at 17.5% (see paragraph 2.11). Notice 702 VAT Imports provides detailed guidance on the valuation of imported goods for VAT purposes.

Example: VAT registered dealer using the Margin Scheme Option for imported antique		
(i)	Value for VAT at import	1,000.00
(ii)	Import VAT (i x 5%)	50.00
(iii)	Purchase price for Margin Scheme (i + ii)	1,050.00
(iv)	Selling price	1,500.00
(v)	Margin (iv - iii)	450.00
(vi)	VAT due (v x 7/47ths)	67.02

(b) **Works of art obtained from artists or their heirs**

When you use the Margin Scheme for works of art obtained (that is supplied in the UK, acquired from another Member State or imported from outside the EC) from artists or their heirs, you must not recover any VAT you are charged. Under the Margin Scheme, your purchase price will be the total price of the work of art inclusive of any VAT.

For acquisitions you should account for acquisition tax in box 2 of your VAT return and not recover the corresponding acquisition tax in box 4 (Input Tax). You should add this unrecoverable acquisition tax to the net purchase price for Margin Scheme purposes.

Example: VAT registered dealer using the Margin Scheme for acquired goods from an artist or his heirs		
(i)	Value of acquisition	1,000.00
(ii)	Acquisition VAT accounted for in box 2 of your	175.00

	VAT return	
(iii)	Purchase price for Margin Scheme (I + ii)	1,175.00
(iv)	Selling price	2,000.00
(v)	Margin (iv - iii)	825.00
(vi)	VAT due (v x 7/47ths)	122.87

19. Second-hand vehicles

Notice 700 The VAT Guide also has further general information concerning the VAT treatment of motoring expenses.

19.1 What vehicles can I use the Margin Scheme for?

The Margin Scheme can only be used for the sale of second-hand vehicles. With effect from 1 January 1995, commercial vehicles also became eligible for the Margin Scheme. The age or mileage of a vehicle does not determine whether it is eligible for the scheme.

To be eligible for the scheme, a vehicle must have been driven on the road for business or pleasure purposes and must have been purchased in certain circumstances - see summary of eligible and ineligible vehicles below. However, registration of a vehicle and delivery mileage do not make a vehicle used for the purposes of the scheme. Similarly, vehicles purchased from other Member States which qualify as new means of transport are not eligible for the Margin Scheme (see paragraph 15.4).

Second-hand vehicles purchased from private individuals and unregistered dealers will always be eligible for the scheme. If you purchase a vehicle from another VAT registered business you must ensure that it is supplied under the Margin Scheme. This should be evident from the invoice obtained from your supplier.

If you are unsure as to whether a vehicle is eligible for the Margin Scheme, the following table provides a summary of both eligible and ineligible vehicles:

Eligible vehicles (includes commercial vehicles) are those purchased from……	**Vehicles not eligible are……**
private individuals in the UK or another EC Member State;	new vehicles - registration and delivery mileage do not make a vehicle used;
businesses not registered for VAT;	imported vehicles - including vehicles collected on your behalf;

VAT registered dealers under the Margin Scheme;	vehicles purchased from registered dealers in other Member States which have not been supplied under a margin scheme;
registered dealers in other Member States which have been supplied under a margin scheme;	new means of transport purchased from other Member States;
dealers or businesses who were unable to reclaim the input VAT on purchase.	any vehicle purchased on an invoice which shows VAT separately - regardless of whether the VAT is reclaimed;
	any vehicle where the invoicing and record keeping requirements have not been met (a concession may apply in these instances - see paragraph 19.4).

19.2 What rules apply to imported vehicles?

Vehicles imported into the UK from a country outside the EC will attract VAT on their full value. These vehicles are not eligible for the Margin Scheme regardless of whether the VAT is claimed or not (unless they meet the criteria for classification as collectors' pieces (see Notice 702: Imports) when they may be eligible for the Margin Scheme Option – see section 18). Similarly if you use a private person, one of your employees or any person connected with your business to collect a vehicle on your behalf which has been imported into the EC, the vehicle is not eligible for the Margin Scheme.

19.3 What if I sell a used car on which input tax has been claimed by me?

If you sell a used vehicle on which you have reclaimed or are entitled to reclaim any input tax (including import VAT charged on vehicles purchased from a third country and acquisition tax chargeable on purchases from dealers in other EC Member States), you cannot use the Margin Scheme. You must account for VAT on the full selling price under the normal rules.

19.4 What if I can't meet the conditions of the Margin Scheme?

You must comply fully with all the invoice and record-keeping requirements which are detailed in section 3. However, if for some reason you do not hold a purchase invoice or a sales invoice there is a concession available whereby you do not have to pay VAT on the full selling price of the vehicle.

If you do not hold a purchase invoice or sales invoice for particular transactions you should contact your local VAT Business Advice Centre. If they decide that the mark-up on the vehicle does not exceed 100% they may allow you to calculate VAT on either:

- the price you paid for the vehicle - if you only hold the purchase invoice; or
- half the selling price - if you only hold the sales invoice.

19.5 How do I treat road fund licences?

If you buy a vehicle for resale under the Margin Scheme and you surrender an unexpired road fund licence, you must not adjust the purchase price of the vehicle by the amount of the refund you receive.

If you sell a vehicle with an unexpired licence or you offer a road fund licence as part of an agreed sale price, you are making a single supply and you must include the value of the licence in your selling price entered in your stock book. But where after negotiating the sale of a car, you agree to obtain the licence on behalf of the customer, you may treat the licence as a separate supply provided you can meet the conditions for a disbursement as explained in Notice 700 The VAT Guide.

If you cannot meet the conditions for a disbursement, the car and licence are treated as a single supply and you must account for VAT on the margin of the total value.

19.6 How do I treat MOTs?

If you sell a second-hand car with an MOT, it is a single supply and the value of the MOT should not be deducted from the total selling price of the vehicle. The full selling price, including the MOT, should be recorded in your stock record and this figure should be used for calculating the margin on which VAT is due.

19.7 What if I rebuild a vehicle?

If you rebuild a vehicle which is eligible for the scheme from one or more used vehicles, and the Driver and Vehicle Licensing Agency (DVLA) do not require it to be re-registered, you can sell it under the scheme. The purchase price you enter in your stock book is the price you paid for the vehicle for which the registration number is carried forward.

However, if you produce a vehicle from the used parts of several vehicles and the DVLA give it a new registration number, you cannot use the scheme. You must account for VAT on the full selling price.

19.8 How do I treat vehicles supplied for export?

With effect from 1 April 2000 the Personal Export Scheme - previously only available for new vehicles - was extended to allow the inclusion of second-hand vehicles. This scheme is available for vehicles exported to countries outside the European Community. You can find details of the scheme in Notice 705A Supplies of vehicles under the Personal Export Scheme for removal from the European Community.

If you export a vehicle direct (that is to a country outside the European Community), the sale can be zero-rated and no VAT is due provided you hold satisfactory evidence of export. Notice 703 VAT: Exports and removals of goods from the United Kingdom has further information on export procedures and the conditions to be complied with. In circumstances where the sale can be zero-rated you must enter “nil” in the VAT due column of your stock book.

Section 15 explains the rules for selling goods to other countries of the European Community.

20. Mechanical Breakdown Insurance and warranties

20.1 What are Mechanical Breakdown Insurance (MBI) and warranties?

The abbreviation ‘MBI’ (Mechanical Breakdown Insurance) is used to describe a contract of insurance between an insurer (usually someone other than yourself) and a purchaser of an item, usually a motor vehicle, which provides cover against the risk of the item proving to be faulty within a specified time period or mileage.

In this paragraph the term “warranty” is used to describe an undertaking, or guarantee, which you give to your customer that if goods should prove to be faulty within a specified time limit or, in the case of motor vehicles, mileage, then you will bear the cost of providing the appropriate repairs or replacement parts.

The situations which can commonly arise are described below, together with the appropriate VAT treatment.

You can find further information on the higher rate of Insurance Premium Tax in Notice IPT1 A General Guide to IPT.

If you arrange MBI for your customers you should in addition to reading paragraphs 20.2 to 20.6 below, read Notice 701/36 Insurance.

You should also read paragraph 21.1.

20.2 How do I treat MBI or free warranties?

If you provide your customer with a ‘free’ warranty or MBI against mechanical defect or breakdown, then the selling price of the item includes the cost to you of providing such a warranty or MBI. The price of the item shown on the invoice to the customer must be the same as that entered in your stock book. Any mention of the warranty or MBI on your invoice must show that no separate charge is being made.

20.3 What if I make a separate charge for MBI or warranty?

If you make a separate charge to your customer for a warranty or MBI, then the VAT treatment of this charge depends on whether any risk covered by the insurance policy is yours or your customers.

(a) **MBIs.** If you arrange Mechanical Breakdown Insurance for your customer, the supply is exempt subject to satisfying the conditions outlined in paragraph 20.4. If the insurance contract is between you and the insurer and only your risk of having to repair defective items is covered, then the charge you show on your invoice for insurance will be standard-rated.

(b) **Warranties.** If you provide a warranty the charge you show on your invoice will be standard-rated.

20.4 Can I treat the price charged for MBI as exempt?

You may treat the price charged for MBI as exempt if:

- it is supplied under a contract between an insurer and your customer;
- it is your customer’s risks which are insured;
- your customer is entirely free to purchase the item at the price advertised without the MBI; and
- you disclose to the customer the premium and any other amount (fees or commission) being charged (see Notice 701/36 Insurance).

This is because there are separate supplies of the item and the MBI, each with its own consideration. In certain other situations you must follow the rules in the table below.

What if the ….	**Then….**

item is reduced in price	If you subsequently negotiate with the customer a reduced price for the item (including the MBI), you should treat the price originally advertised for the MBI as the value of the exempt supply of the MBI.
MBI is upgraded	If negotiations with the customer result in the supply of an upgraded MBI, you may use the separately advertised price of the upgraded MBI as the value of the exempt supply of the MBI.
MBI and the item are advertised at a single price	If you advertise the item and the MBI at a single price, that is you do not disclose to the customer the amount they are paying for the MBI, then any fee or commission income you would receive in relation to this insurance is standard-rated. The net value of the insurance paid to and retained by the insurer remains exempt.

You can find further information on the implications of these arrangements for Insurance Premium Tax in Notice IPT1 A General Guide to IPT.

20.5 How do I treat MBI or a warranty supplied under other schemes?

The supply of a warranty or MBI under any other type of scheme is standard-rated.

For example, under what are commonly known as ‘stop-loss’ arrangements, a dealer or insurance broker may set up a ‘fund’ into which amounts charged to customers for warranties or MBI are paid and from which repair claims are met. The dealer or broker then obtains insurance cover against any deficiency in the fund. In such circumstances there is no contract of insurance between the insurer and the customer purchasing an item, the only risk insured is that of the dealer and any charge to the customer for a warranty or MBI will not be exempt.

20.6 How do I account for standard-rated charges made for MBI or warranties?

Any standard-rated insurance income as at paragraph 20.3 or 20.5 must be deducted (if the latter is not charged separately) from the vehicle’s selling price before the gross margin on the vehicle is established.

VAT is due on such standard-rated charges, together with VAT on the gross profit margin, if any, on the vehicle itself.

21. Examples of how to evidence MBI on sales invoices

21.1 How do I evidence MBI on sales invoices?

Example 1

Amount due under contract of insurance £200 – (net amount payable to the insurer £120, commission retained by dealer £80).

If ….	Then the liability of the supplies is…
MBI value disclosed to the customer £200	£200 exempt insurance (including £80 commission)
MBI value not disclosed to customer.	£120 exempt, retained by insurer;£80 standard-rated (dealer's commission).

Example 2

In addition to the £200 in the example above, the dealer charges a fee of £50 to the insured.

If…..	then the liability of the supplies are…
Value of amount due under contract and fee are disclosed to customer	total insurance related charge £250 - exempt (including £50 fee and £80 commission)
Only value of amount due under contract of MBI disclosed, not the fee (or only fee disclosed and not amount due under contract of MBI)	£120 exempt, retained by insurer;£80 commission plus £50 fee standard-rated.

22. Horses and ponies

The scheme can be used only for second-hand horses or ponies. Horses and ponies which you have bred and are selling for the first time are not second-hand. You cannot use the scheme for any horse or pony that you have bought on an invoice which shows VAT separately.

Paragraphs 22.1 to 22.6 of this section explain alternative record keeping requirements based on special three-part forms supplied by The British Equestrian Trade Association (BETA).

Paragraphs 22.7 to 22.11 of this section explain the normal record keeping requirements if you do not use the special three-part forms.

22.1 What is the three-part form?

To sell horses and ponies under the Margin Scheme you can, as an alternative to the normal Margin Scheme records, use special three-part forms in numbered sets, with a VAT summary sheet at the back. These are sold by:

The British Equestrian Trade Association (BETA)

East Wing
Stockeld Park
Wetherby
West Yorkshire
LS22 4AW

You can use this form for each horse or pony you sell or intend to sell under the scheme. If you use the three-part form these are the only stock and sales records you need to keep for the purposes of the Margin Scheme. You do not need to keep a stock book or invoices as described in section 3. Part:

- A of the form is your stock record;
- B is your copy sales invoice; and
- C is the customer's purchase invoice.

You must not alter the serial number on the form.

If you do not complete the form correctly, VAT will be due on the full selling price.

As you will need your records to confirm the margin on which you account for VAT you must keep all your records for six years after the date of sale of the goods.

22.2 Buying a horse or pony

Buying from a private person. If you buy a horse or pony from a private person you must:

- check that it is eligible for the scheme;
- complete the 'Description' and 'Written Description' sections of Parts A, B and C of the form. You must do this in accordance with the standard laid down by the Royal College of Veterinary Surgeons in their booklet 'Colours and Markings of Horses'. You can get copies from:
  The Royal College of Veterinary Surgeons
  32 Belgrave Square
  London SW1

If the horse or pony is not registered with a recognised Breed Society, Stud Book or Register such as the Welsh Pony and Cob Society or Farm Key Freeze Branding, you and a vet must sign Parts A, B and C of the form to certify that the horse or pony is the one described on the form.

However, if the purchase price of the horse or pony is £500 or less, the vet's signature is not necessary. Similarly, if the horse or pony is registered, the signatures are not necessary:

- give the form a stock number in numerical sequence;
- complete the Purchase Record section on the reverse of Part A; and
- keep all three parts of the form (you will need them when you resell the horse or pony).

Buying from someone who is selling under the Scheme. You should follow the rules above but the seller will give you Part C of the form, which you must keep with your partially completed form. The seller will not have to sign the declaration on the reverse of Part A. If the horse or pony is unregistered and has a purchase price of £500 or more, the Part C you are given should already have been signed by a vet. You need only copy the details of the vet's name, practice etc on to your form - you need not get the vet to sign it.

22.3 Selling a horse or pony

You must:

- check that you have followed the procedure in paragraph 22.1. If you have not, you cannot use the scheme;
- complete the sales record sections on the reverse of Parts A, B and C;
- complete the VAT Record section on the reverse of Part A. Paragraph 2.11 explains how to work out the VAT due;
- keep Parts A and B;
- give Part C to the buyer; and
- complete the VAT summary sheet.

22.4 Buying a horse or pony at auction

You should follow the rules in paragraph 22.2. If the horse or pony is being sold under the scheme, the auctioneer will give you Part C of the seller's form (you must keep this part with your own partially completed form).

If the horse or pony is sold by a private person you must get the auctioneer to complete details of his name, address and Lot no. on the reverse of Part A of your form.

22.5 What if I use the three-part form and sell a horse or pony at auction?

You should tell the auctioneer that your horse or pony is being sold under the scheme and give the auctioneer Parts B and C of your form, which must already be completed as per paragraph 22.1.

After the sale:

- the auctioneer will complete the sales details on the reverse of Parts B and C, adding their name and address;
- Part C will be given to the buyer;
- Part B will be returned to you; and
- you should complete the Sales and VAT Records sections on your Part A.

22.6 What should the auctioneer do if I use the three-part form?

When you sell a horse or pony on behalf of a person selling it under the Scheme, the vendor will give you Parts B and C of the partially completed form. After the sale you should:

- complete the reverse of Parts B and C;
- give Part C to the buyer;
- return Part B to the seller.

If you have sold a horse or pony on behalf of a person not registered for VAT to a person who is registered, you should complete your name, address and Lot no. on the reverse of Part A of the buyer’s form.

22.7 What records do I have to keep if I don’t use the three-part form?

If you prefer not to use the three-part form available from BETA you can maintain the normal records and accounts detailed in section 3.

The text below has the force of law

If you do decide to keep normal Margin Scheme records your stock book must include sufficient details to identify the horse or pony including colour, sex, type (eg chestnut, cob, gelding), age (if known), height, stable name (if known), distinctive markings.

22.8 Buying a horse or pony and not using the three-part form

If you decide not to use the three-part form you must comply with the conditions set out in paragraphs 3.4 and 3.5. If you do purchase a horse or pony from a VAT registered dealer who uses the three-part form, the dealer will give you part C of that form. You may use this as your purchase invoice and enter the details in your stock book. You must include sufficient details in your stock book to identify the horse or pony - see paragraph 22.7.

22.9 Selling a horse or pony and not using the three-part form

If you sell a horse or pony and do not use the three-part form you must comply with the conditions set out in paragraphs 3.6 and 3.7.

22.10 Buying a horse or pony at auction and not using the three-part form

If you buy a horse or pony at auction and you are not using the three-part form you must comply with the conditions set out in paragraph 12.1. If the horse or pony is being sold at auction by a VAT registered dealer who uses the three-part form, the auctioneer will give you part C of that form. You may use this as your purchase invoice and enter the details in your stock book. You must include sufficient details in your stock book to identify the horse or pony - see paragraph 22.7.

22.11 Selling a horse or pony at auction and not using the three-part form

If you sell a horse or pony at auction and you are not using the three part form you must comply with the conditions set out in paragraph 12.4.

23. Pawnbrokers

23.1 Can pawnbrokers use the Margin Scheme?

If you are a pawnbroker you can use the Margin Scheme for sales of unredeemed pawns provided:

- the original loan did not exceed £75 (£25 before 1/5/98) with a six month redemption period;
- you have taken title to the goods; and
- you meet the conditions of the Margin Scheme as explained at paragraph 2.3.

23.2 What is my purchase price for the Margin Scheme?

If you do opt to use the Margin Scheme for goods described in paragraph 23.1, your purchase price will be:

- the amount of the loan plus the initial six months interest payable, less any payments received.

The interest relating to the three month period of grace and other items such as cleaning, repair charges, storage and other overhead expenses must not be added to the purchase price.

23.3 What purchase records should I keep?

You may, if you wish, use the Credit Agreement and Pawn Receipt as your purchase invoice provided:

- the contract number is entered in the stock record and cross refers to the agreement; and
- a copy of the interest calculations and total purchase value for Margin Scheme purposes is attached to the document if it differs from the amount shown.

23.4 Can I use the Margin Scheme for all unredeemed pawns?

You cannot use the Margin Scheme for the sale of unredeemed pawns if the original loan **exceeds £75** (£25 prior to 1/5/98). However, if the pledgor is not VAT registered you can sell the goods at auction under the Auctioneers' Scheme (see paragraph 7.10).

You can find general information about pawnbrokers in VAT leaflet 700/31 Pawnbrokers: Disposal of pledged goods.

24. Other special circumstances

24.1 Can I claim relief for bad debts?

If you supply goods and do not receive payment within certain time limits you may claim relief from VAT on the 'bad debt'. You will find full details of the time limits and conditions for claiming in VAT Notice 700/18 Relief from VAT on bad debts. Under the Margin Scheme, the amount of VAT on which you claim relief cannot exceed the amount of VAT previously accounted for on the margin. This is best explained by two examples based on the following figures:

Goods purchased for: £400

Goods sold for: £500

Margin on which VAT is paid to Customs: £100

VAT payable (£100 x 7/47ths): £14.89

Example 1. The customer only pays £350 leaving a debt of £150. The debt is greater than the margin so the potential bad debt relief is £100 (margin) x 7/47ths = £14.89.

Example 2. The customer pays £450 leaving a debt of only £50 then this debt is less than the margin so the potential bad debt relief is £50 (debt) x 7/47ths = £7.44.

If you receive payment from your customer after making a claim you must refund the appropriate amount to Customs.

24.2 What if I buy an eligible item from an insurance company or finance house?

If you buy an eligible item from either:

- an insurance company which has acquired it as a result of an insurance claim; or
- a finance house which has repossessed it;

you will not be charged VAT provided;

- the goods are sold on to you in exactly the same state; and
- the goods were obtained by the insurance company/finance house from a person who would not have charged VAT on the supply of the goods, for example a private individual.

You can resell such items using the Margin Scheme provided you meet the conditions set out at paragraph 2.3.

24.3 What if I sell insurance with my Margin Scheme supply?

If you sell insurance with a standard-rated product (such as a second-hand car or a domestic appliance) you may treat the insurance as exempt from VAT provided:

- it is supplied under a contract between an insurer and your customer;
- it is the customer's own risk which is being insured, that is, the individual customer's risk is referred to in the policy. It is not necessary for the customer to be specifically named. If you and the customer are the insured, it is sufficient for the policy to refer to, for example, "J. Smith and customers"; and
- the amount of the premium, and any fee (or commission) charged over and above that premium, are fully disclosed on your sales invoice at the time of sale.

If you do not meet these requirements the insurance element of your supply will be standard-rated.

You can find further information in Notice 701/36 Insurance and Notice IPT 1 A General Guide to IPT. Guidance on Mechanical Breakdown Insurance (MBI) and warranties is at section 20 of this notice.

24.4 How do I deal with gifts?

If, during the course of your business, you sell an item which you were given, you cannot use the Margin Scheme and must account for VAT on the full selling price. If you give away an item which was eligible for sale under the Margin Scheme, no VAT is due, although you must include in your stock book full details of the person to whom the goods were given.

24.5 How does VAT apply to private sales?

The private sale of goods which are not assets of your business is usually outside the scope of VAT and no VAT is due. However, if you are a sole proprietor and you sell an eligible item (see paragraph 25.1) which you transfer to your business from your private holdings you can use the Margin Scheme for the sale of that item. However, you must be able to produce evidence of the purchase price when you bought it for your private use. If you cannot produce evidence of the original purchase price you must account for VAT on the full sales value.

24.6 What if I take over a business as a going concern (TOGC)?

If you obtain goods under a transfer of a going concern (TOGC) no VAT will be chargeable on the transfer. However, this does not mean the goods become eligible for the Margin Scheme in your hands. You will only be able to use the scheme, if the last person to obtain those goods other than by way of a TOGC or an assignment of rights (see paragraph 24.8) would have been entitled to use the Margin Scheme to sell those goods himself. Where there has been a succession of TOGC's or assignments, or a mixture of both, it is the first person in that chain who must have been entitled to use the Margin Scheme himself.

When you take over a business as a going concern you will normally inherit the business records of the transferor. These records will include the purchase invoices for stock on hand and it is these invoices which will indicate whether or not the goods are eligible for the scheme.

As a general rule, if the transferor of the goods bought them on Margin Scheme invoices you will be able to sell them under the scheme. If the transferor bought them on invoices showing VAT, they are not eligible for the scheme and you will have to account for VAT on the full selling price when you sell them. Therefore, it is in your own interest when you buy a business as a TOGC to check the position with the seller.

If you obtain goods under a TOGC from a bank or financial institution, and that body had obtained those goods when they were assigned the rights in a hire purchase or conditional sale agreement, you should follow the guidance in paragraph 24.8 below.

24.7 What rules apply to banks and financial institutions selling goods they obtained when they were assigned the rights in hire purchase or conditional sale agreements?

In this case such businesses are only able to use the Margin Scheme to sell eligible goods, if the last person to obtain those goods other than by way of an assignment of rights or a TOGC would have been entitled to use the Margin Scheme to sell those goods himself. Where there has been a succession of assignments or TOGC's, or a mixture of both, it is therefore the first person in that chain who must have been entitled to use the Margin Scheme himself.

The rules only apply to sales of goods obtained by way of an assignment of rights that takes place on or after the 1st July 2002.

24.8 What is the purchase price of eligible goods acquired under a TOGC or an assignment of rights?

Once you have established that goods are eligible for the Margin Scheme (see paragraph 24.6 and 24.7) you will need to know the correct purchase price for each item. This will be the purchase price paid by the person transferring the business or assigning the rights when they bought the goods if that person was entitled to use the Margin Scheme to sell those goods himself. Where there has been a succession of assignments or TOGC's, or a mixture of both it is the first person in that chain who must have been entitled to use the Margin Scheme himself.

In the case of a TOGC the purchase invoices which will form part of the business records will identify the original purchase price which you must use when calculating the margin on which VAT is payable. When you buy a business as a TOGC you must ensure that you have the necessary records to enable you to calculate a margin. You will always need the purchase invoices and you may enter the goods obtained under a TOGC into your own stock record if the original stock record is retained by the transferor of the business. The transferor is at liberty to retain copies of the documents for their own purposes.

In the case of an assignment of rights made to a bank or financial institution, the records that are usually kept in relation to these transactions should provide the necessary information needed.

24.9 How do I treat the sale of second-hand caravans and houseboats?

Certain caravans and houseboats are zero-rated but some fixtures and any removable contents supplied with the caravan or houseboat are standard-rated. You can use the Margin Scheme for the sale of the standard-rated items provided you meet all the record keeping requirements detailed in section 3. Guidance on how to calculate a value for standard-rated items and how to calculate the margin is available in Notice 701/20 Caravans and houseboats.

If you sell second-hand boats which are not “houseboats” or second-hand caravans which do not meet the criteria for zero-rating you can use the Margin Scheme and calculate the VAT payable in accordance with paragraph 2.11.

24.10 How do I treat hire-purchase sales?

If you sell an eligible item and arrange hire-purchase (HP) terms with a finance company on behalf of the customer, you are deemed to be selling the item to the finance company. This means that you must transfer the sales price of the item from the HP agreement to your stock book. No VAT is charged on the finance charges provided these are itemised separately. In some circumstances you may issue your own sales invoice to your customer and you will also have a copy of the HP agreement.

You must attach a copy of the completed HP agreement to the customer’s sales invoice or include a cross reference to the agreement in your sales records. If the HP agreement is held by the finance company and you do not receive a copy for your records, you should keep a copy of the agreed quotation or agreed proposal documents in your sales records, together with the name of the finance company, date and reference number of the final agreement.

You can use a copy of the HP agreement as your sales invoice provided it shows:

- all the identifying details of the item; and
- the cash price of the item as the gross price payable. The gross price is the amount borrowed plus any cash deposit paid, plus any amount allowed for a part-exchange item.

Remember, VAT must not be shown separately on the HP agreement or the customer’s sales invoice.

24.11 How do I treat part-exchange goods?

If you sell eligible goods and take others in part-exchange the selling price on which you calculate your margin must include the value of the part-exchanged goods. For example, you sell a car for £2,500 for which you paid £1,500. However, you also take a car in part-exchange which you value at £500 meaning the customer actually only hands over a balance of £2,000. The selling price you insert in your stock book must be £2,500 and you must account for VAT on the full margin of £1,000. At the same time you must include details of the part-exchanged item as part of the purchase details in your stock book. In the example above your purchase price would be £500. You must not alter this purchase price.

You must obtain a purchase invoice for goods you buy from another VAT registered dealer. However, if you buy from a private person or unregistered dealer, you may include details of part-exchange items on your sales invoice provided all the requirements of paragraph 3.5 are met.

24.12 What if I do not deal in second-hand goods but make occasional sales of eligible goods?

If you are not in the business of selling second-hand goods etc. but occasionally sell eligible goods in the course of your business, you need not comply with the full record-keeping requirements in section 3, provided you meet the other conditions of the scheme and hold evidence of both the purchase and selling price.

25. Definitions

25.1 Definitions of eligible and ineligible goods

For the purposes of the Schemes in this notice, the words and phrases below have the following meaning:

Eligible goods

Second-hand goods

Tangible moveable property that is suitable for further use as it is or after repair, other than works of art, collectors' items or antiques and other than precious metals and precious stones.

Works of art

1. “Work of art” means, subject to subsections 2 and 3 below -

(a) any mounted or unmounted painting, drawing, collage, decorative plaque or similar picture that was executed by hand;

(b) any original engraving, lithograph or other print which:

(i) was produced from one or more plates executed by hand by an individual who executed them without using any mechanical or photomechanical process; and

(ii) either is the only one produced from the plate or plates or is comprised in a limited edition;

(c) any original sculpture or statuary, in any material;

(d) any sculpture cast which:

(i) was produced by or under the supervision of the individual who made the mould or became entitled to it by succession on the death of that individual; and

(ii) either is the only cast produced from the mould or is comprised in a limited edition;

(e) any tapestry or other hanging which:

(i) was made by hand from an original design; and

(ii) either is the only one made from the design or is comprised in a limited edition;

(f) any ceramic executed by an individual and signed by him;

(g) any enamel on copper which:

(i) was executed by hand;

(ii) is signed either by the person who executed it or by someone on behalf of the studio where it was executed;

(iii) either is the only one made from the design in question or is comprised in a limited edition; and

(iv) is not comprised in an article of jewellery or an article of a kind produced by goldsmiths or silversmiths;

(h) any mounted or unmounted photograph which:

(i) was printed by or under the supervision of the photographer;

(ii) is signed by him; and

(iii) either is the only print made from the exposure in question or is comprised in a limited edition;

2. The following do not fall within the definition of works of art -

(a) any technical drawing, map or plan;

(b) any picture comprised in a manufactured article that has been hand-decorated; or

(c) anything in the nature of scenery, including a backcloth.

3. An item comprised in a limited edition shall be taken to be so comprised for the purposes of subsection 1(d) to (h) above only if -

(a) in the case of sculpture casts:

(i) the edition is limited so that the number produced from the same mould does not exceed eight; or

(ii) the edition comprises a limited edition of nine or more casts made before 1 January 1989 which the Commissioners have directed should be treated, in the exceptional circumstances of the case, as a limited edition for the purposes of subsection 1(d) above;

(b) in the case of tapestries and hangings, the edition is limited so that the number produced from the same design does not exceed eight;

(c) in the case of enamels on copper:

(i) the edition is limited so that the number produced from the same design does not exceed eight; and

(ii) each of the enamels in the edition is numbered and is signed as mentioned in subsection 1(g)(ii) above;

(d) in the case of photographs -

(i) the edition is limited so that the number produced from the same exposure does not exceed thirty; and

(ii) each of the prints in the edition is numbered and is signed as mentioned in subsection 1(h)(ii) above.

Collectors' items

Collections and collectors' pieces of zoological, botanical, mineralogical, anatomical, historical, archaeological, palaeontological, ethnographic, numismatic or philatelic interest.

A collector's piece is of philatelic interest if:

(a) it is a postage or revenue stamp, a postmark, a first-day cover or an item of pre-stamped stationery; and

(b) it is franked or (if unfranked) it is not legal tender and is not intended for use as such.

Note: unfranked stamps which are valid for postage are not collectors' items and cannot be included in the Margin Schemes: that is, stamps on which the value is:

- in decimal currency; or
- currently valid for 1st or 2nd class postage; or
- £1, or a multiple of £1, of the present monarch's reign.

Antiques

Antiques means objects other than works of art or collectors' items which are more than 100 years old.

Ineligible goods

Precious metals

Goods (including coins) consisting in precious metals or any supply of goods containing precious metals where the consideration for the supply (excluding any VAT) is, or is equivalent to an amount which does not exceed the open market value of the metal contained in the goods.

For gold coins sold at or below the open market value (that is the daily 'fix' price) the special accounting and payment system for gold transactions applies. Further details can be found in Notice 701/21 Gold.

Investment gold

With effect from 1 January 2000, gold coins which meet the definition of investment gold are not considered of numismatic interest and are not eligible for the Margin schemes. Further details about investment gold can be found in Notice 701/21A Investment Gold Coins.

Precious stones

Precious stones of any age which are not mounted, set or strung. For the purposes of the Margin Scheme, precious stones are diamonds, rubies, sapphires and emeralds.

26. Index

This index is a guide to the information set out in Notice 718. The references are to Sections (Sec), to paragraphs (for example 2.1).

There is a more general index, which covers a wide range of VAT questions, at the back of Notice 700 The VAT Guide.

Subject	Sub-heading within subject	Paragraph / section reference
Stock		2.2, 5.5, 5.6, 5.7
Stock book		3.1, 3.3, 3.4, 3.6, 3.8, 3.9, Sec 4
Stolen goods		6.9
Tax Point		7.9
Time of supply		7.9
Transfer of a going concern (TOGC)		2.11, 3.4, 24.6, 24.8
Transfer of own goods		15.3
VAT fraction		2.11
VAT rate		2.11
VAT return		3.10, 7.6, 15.5
Warranties		Sec 20
Working out the VAT due		2.11
Works of art		2.7, 2.9, Sec 11, Sec 18, 25.1
Zero-rated goods		7.7

Do you have any comments?

We would be pleased to receive any comments or suggestions you may have about this notice. Please write to:

HM Customs and Excise
Accounting and Records
4th Floor South West
Queens Dock
Liverpool
L74 4AA

Please note this address is not **for general enquiries**. You should ring our National Advice Service about those.

If you have a complaint or suggestion

If you have a complaint please try to resolve it on the spot with our officer. If you are unable to do so, or have a suggestion about how we can improve our service, you should contact one of our Regional Complaints Units. You will find the telephone number under 'Customs and Excise - complaints and suggestions' in your local telephone book. Ask for a copy of our code of practice 'Complaints and putting things right' (Notice 1000). You will find further information on our website at http://www.hmce.gov.uk.

If we are unable to resolve your complaint to your satisfaction you can ask the Adjudicator to look into it. The Adjudicator, whose services are free, is a fair and unbiased referee whose recommendations are independent of Customs and Excise.

You can contact the Adjudicator at:

The Adjudicator's Office
Haymarket House
28 Haymarket
LONDON
SW1Y 4SP

Phone: (020) 7930 2292
Fax: (020) 7930 2298
E-mail: **adjudicators@gtnet.gov.uk**
Internet: **http://www.adjudicatorsoffice.gov.uk/**

Update 1 August 2003

This update:

- Amends paragraph 1.2, which lists the changes made in the May 2003 edition, to include paragraph references
- Clarifies guidance on what to do if a purchase invoice is received from an unregistered dealer
- Corrects cross references to other paragraphs in paragraph 24.6 What if I take over a business as a going concern

Section	Amendments

1	**Introduction**
1.2	**What's changed**
	First bullet – after "what to do if a" delete "Global Accounting". At the end of the bullet insert "paragraphs 3.4 and 6.2 refer;"
	Second bullet – at the end of the bullet insert "paragraphs 7.5 and 12.2 refer;"
	Third bullet - at the end of the bullet insert "paragraph 9.1 refers;"
	Fourth bullet – at the end of the bullet insert "paragraph 22.5 refers;"
	Fifth bullet – at the end of the bullet insert "paragraph 22.1 refers;"
	Sixth bullet – at the end of the bullet insert "paragraph 24.10 refers;"
	Seventh bullet – at the end of the bullet insert "paragraph 5.7 refers;"
	Eighth bullet – at the end of the bullet insert "paragraph 24.12 refers; and"
	Ninth bullet – at the end of the bullet insert "paragraph 8.4 refers.
3	**Records and accounts**
3.4	**What do I have to do when I buy eligible goods?**
	Step 2 – delete from "If you buy ……" to "that dealer will make out the invoice" and replace with " If you buy from another VAT registered dealer, that dealer will make out the invoice. If you buy from an unregistered dealer and he provides you with an invoice, you must ensure that it contains all the details necessary to meet the requirements of paragraph 3.5. If you buy from an unregistered dealer who does not provide an invoice, or from a private individual you must make out the invoice."
6	**Global Accounting – records and accounts**
6.2	**What must I do when buying goods under Global Accounting?**
	Bullet 2 line 1 – delete from "If you buy from …." to "and certify that it is not a tax invoice; and" and replace with "If you buy from another VAT registered dealer the dealer must make out an invoice at the time of sale and certify that it is not a tax invoice. If you buy from an unregistered dealer and he provides you with an invoice, you must ensure that it contains all the details necessary to meet the requirements of paragraph 6.3. If you buy from an unregistered dealer who does not provide an invoice, or from a private individual you should make out the invoice at the time you buy the goods; and"

24	**Other special circumstances**
24.6	**What if I take over a business as a going concern (TOGC)?** line 6 – replace ”paragraph 24.8” with “paragraph 24.7” last line – replace “paragraph 24.8” with “paragraph 24.7

Update 2 issued July 2004

This update:

- **Includes an example of calculations for zero-rated goods sold under the Auctioneers' Scheme in Section 9**
- **Amends paragraphs 15.1 and 16.1 to take account of the effect of the new EC Invoicing Directive on margin scheme invoices received from other Member States**
- **Clarifies the guidance in paragraph 18.2 on supplies of works of art acquired from the artist or his heirs**
- **Amends the table in paragraph 21.1 to clarify when Mechanical Breakdown Insurance must be shown on an invoice**
- **Deletes reference to Notice 700/31 in paragraph 23.4**
- **Includes a new paragraph 24.13 about the second sale of repossessed second-hand goods by Finance Companies**

Section	**Amendments**		
9 **9.1**	**Example calculations for the Auctioneers' Scheme** **How do I work out the VAT due under the Auctioneers' Scheme?** Delete **Example 3** and insert new example 3 **Example 3** – Auctioneer selling goods for export from the European Community under the Auctioneers' Scheme. Calculation includes vendor's commission and buyer's premium. NOTE: In the case of goods supplied for export from the European Community, the auctioneer must obtain proof of export before zero-rating can be applied, Notice 703 Exports and removals of goods from the United Kingdom refers.		
	(a)	Hammer price	= 1000.00
	(b)	Vendor's commission	= 117.50

	(c)	Buyer’s premium	= 176.25
	(d)	Purchase price (a-b)	= 882.50
	(e)	Selling price (a+c)	= 1176.25
	(f)	Margin (e-d)	= 293.75
	(g)	Output tax (zero-rated)	= NIL
		After **Example 5** insert new **Example 6:**	
		Example 6 – Auctioneer selling zero-rated goods (such as antique books) under the Auctioneers’ Scheme. Calculation includes vendor’s commission and buyer’s premium.	
	(a)	Hammer price	= 1000.00
	(b)	Vendor’s commission (exclusive of VAT)	= 100.00
	(c)	Buyer’s premium (exclusive of VAT)	= 150.00
	(d)	Purchase price (a - b)	= 900.00
	(e)	Selling price (a + c)	= 1150.00
	(f)	Margin (e – d)	= 250.00
	(g)	Output tax (zero-rated)	= NIL

15 **15.1**	**Buying and selling within the European Community** **How does VAT apply to purchases from other EC Member States?** Second bullet point: Goods purchased under a Margin Scheme from a registered business in another Member State – Delete whole paragraph and insert new paragraphs: • Goods purchased under a margin scheme from a registered business in another Member State - as with transactions between UK VAT registered dealers, you can only use the Margin scheme for goods purchased from dealers in other Member States, if the goods were supplied by that dealer under a Margin scheme. All Member States operate a Margin Scheme and prior to 1 January 2004 most used a declaration on sales invoices to identify the transaction as a Margin scheme sale. The declarations required on invoices issued in other Member States, prior to 1 January 2004, are reproduced in paragraph 16.1. Some of the declarations were not mandatory so it is very important that you have checked with your supplier that the goods were sold to you under the Margin Scheme. Following implementation of the EC Invoicing Directive in all Member States on 1 January 2004, Margin scheme invoices must include a reference to Article 26 or 26a or another declaration to indicate that the goods have been sold under the Margin Scheme. The UK are retaining their current declaration “Input tax deduction has not been and will not be claimed by me in respect of the goods sold on this invoice” . The EC Commission will be putting a list of suggested wording/declarations on their Europa Internet site under Guide to VAT in the European Community . Paragraph 16.1 will be updated with the declarations required in other Member States with effect from 1 January 2004 when they are available. It is likely that some Member States will retain their existing declaration. Final **Paragraph** – After the final paragraph insert new sub-paragraph
15.1.1	Invoices from a registered business in another Member State after 1 January 2004 From 1 January 2004, as allowed under the EC Invoicing Directive, some Member States require invoices for supplies made in their country to include the VAT registration number of the customer. This means that you may receive an invoice for a supply from another Member State which includes a Margin Scheme declaration and your VAT registration number. If you are sure that the supply has been made under the Margin Scheme you can enter the details into your scheme records. If you are in any doubt about how the supply has been treated, you should check with your supplier before entering the details into your records.

16	**Invoice declarations for Margin Scheme supplies from other EC States**	
16.1	**What declarations do other Member States use for Margin Scheme sales?** Immediately after the paragraph heading delete **"All declarations are mandatory unless otherwise indicated."** and insert "Following implementation of the EC Invoicing Directive in all Member States on 1 January 2004, margin scheme invoices must include a reference to Article 26 or 26a or another declaration to indicate that the goods have been sold under the Margin Scheme. The following list contains declarations that were shown on sales invoices from other Member States prior to 1 January 2004, some of which were not mandatory. It is likely that some Member States will retain the same declaration and those that were not mandatory may become so. The EC Commission has asked all Member States to advise them of the declaration which will apply with effect from 1 January 2004. The list will be reproduced below when it becomes available. The EC Commission intend to publish the list on their Europa Internet site under "Guide to VAT in the Community".	
18	**Margin Scheme Option for imported works of art, antiques and collectors' items**	
18.2	**Does the option apply to works of art from the creator or their heirs?** Line 1 Delete first sentence "Yes. You may opt to use ………… VAT will have been charged on their sale or acquisition" and insert " Yes. You may opt to use the Margin Scheme for works of art obtained (that is supplied in the UK or acquired from another Member State) from the creator or his heirs whether or not VAT has been charged on their sale or acquisiton."	
21	**Examples of how to evidence MBI on sales invoices?** Delete **Example 1** and insert new **Example 1** **Example 1** Amount due under contract of insurance £200 (net amount payable to the insurer £120, commission retained by dealer £80)	
	.If….	**Then the liability of the supplies is….**
	MBI value £200 disclosed to the customer on the sales invoice	£200 exempt insurance (including £80 commission)

	MBI value not disclosed to customer on the sales invoice	£120 exempt, retained by insurer; £80 standard-rated (dealer's commission)
23 **23.4**	**Pawnbrokers** **Can I use the Margin Scheme for all unredeemed pawns?** Delete last paragraph "You can find general information about pawnbrokers in the VAT leaflet 700/31 Pawnbrokers: disposal of pledged goods."	
24	**Other special circumstances** Insert new paragraph 24.13	
24.13	**How do finance companies treat the sale of second-hand repossessed goods?** Repossessed goods can mean goods: • voluntarily returned under an HP agreement; • repossessed under the terms of a finance agreement; or • returned by a customer under the Consumer Credit Act once they have made 50% of the total payments due. The sale of repossessed second-hand goods, originally sold by a finance company under the Margin Scheme, can be sold without accounting for VAT on the margin, provided the goods are in the same condition as when they were repossessed. The goods will not be in the same condition if any improvements, repairs or replacement parts or the generally making good of any damage has been carried out. However, the cleaning of goods generally does not affect the condition nor does the inclusion of instruction manuals if they are otherwise missing. If the condition of the repossessed second-hand goods has changed they can be sold under the Margin Scheme. The purchase price for the purpose of calculating the margin will be the original price paid by the finance company to the dealer.	

Update 3 August 2006

This update outlines the special arrangements for works of art, antiques and collectors' items sold within the Temporary Importation regime.

Section	Amendments
11.1	**Insert** new sub-paragraph after, "The conditions for exercising the option are set out in paragraph 11.3":

	"You may also be able to use the Auctioneer's Scheme to account for Buyer's Premium in respect of works of art, antiques and collectors' items you have sold at auction while they were subject to a Customs Temporary Importation (TI) regime. See paragraph 11.3 for further details."
11.3	**Insert** new sub-paragraphs above, "If you do not take up this option…": "Works of art, antiques, and collectors' items imported into the UK from places outside the EC Member States qualify for a reduced rate of import VAT (currently 5%). Such goods are often entered to a Temporary Importation (TI) regime in order to be sold at auction. The goods are then either exported from the EU or finally imported. If imported, the goods qualify for the reduced rate of VAT, but the commission charged by the auctioneer, known as the Buyer's Premium, does not. VAT must be accounted for on such premia at the standard rate, except where the goods are exported from TI to a place outside the EU. Auctioneers may use the Auctioneer's Scheme to account for sales by auction within TI. VAT must be charged on the Buyer's Premium at the appropriate rate, that is the standard rate for goods finally imported after auction, and the zero rate where goods are directly exported from TI following an auction. Any Import VAT is to be accounted for on the appropriate customs import declaration."