ZAZEN TAX

The VAT Margin Scheme Explained

Buy a jacket for £12, sell it for £49.95, and under the standard rules you owe VAT on the whole £49.95. Under the margin scheme you owe it on the £37.95 of margin instead. The saving is £2.00, and this book is about why that number is £2.00 and not something else.

Ten chapters. Rates and rules as at August 2026.

> **WHO THIS IS FOR**
>
> VAT-registered sellers of second-hand goods, and sellers approaching the threshold who need to know what changes when they cross it. If you buy your stock from people who cannot charge you VAT, this scheme was written for you.

CHAPTER ONE

One number, and it never moves

Almost everything written about the margin scheme explains the mechanism and stops. The mechanism is easy. What is worth knowing is the size of the prize, and the size of the prize is fixed by a single number that has nothing to do with what you sell things for.

The arithmetic

Under the standard rules, VAT on a sale is the VAT fraction of the whole selling price. At 20 per cent the VAT fraction is one sixth, because a price that includes 20 per cent VAT is six fifths of the net price, and the VAT is one of those six parts.

Under the margin scheme, VAT is the same fraction of the margin rather than of the price. The margin is what you sold it for less what you paid for it.

	Standard scheme	Margin scheme
Sold for	£49.95	£49.95
Paid for it	£12.00	£12.00
VAT is charged on	£49.95	£37.95
VAT due	**£8.33**	**£6.33**
You keep, before costs	**£29.62**	**£31.62**

Where the £2.00 comes from

Subtract one from the other. The saving is the VAT fraction of the selling price less the VAT fraction of the margin, which is the VAT fraction of the difference between them. The difference between the selling price and the margin is the purchase price.

> THE WHOLE SCHEME IN ONE LINE
>
> The margin scheme saves you the VAT fraction of what you PAID for the item. At 20 per cent that is one sixth of the purchase price. The selling price does not enter it at all.

Sell that jacket for £30 instead and the saving is still £2.00. Sell it for £300 and the saving is still £2.00. Buy a better jacket for £60 and the saving is £10, whatever you sell it for.

Which sellers it is worth most to

This has a consequence most articles get backwards. The scheme is worth most to sellers who buy expensive stock, not to sellers who mark up hardest. A dealer buying at £200 and selling at £300 saves £33.33 an item. A dealer buying at £5 and selling at £80 saves 83p, despite the far better margin.

Paid	Sold for	Margin	Scheme saves
£5	£80	£75	£0.83
£12	£49.95	£37.95	£2.00
£60	£95	£35	£10.00
£200	£300	£100	£33.33
£200	£1,200	£1,000	£33.33

Notice the last two rows. Same purchase, wildly different sale, identical saving. If you remember nothing else from this book, remember that the column that drives the saving is the first one.

CHAPTER TWO

What you give up

The scheme is optional, item by item, and it is not free. Three things come off the other side of the ledger, and for some businesses they outweigh the saving.

You cannot reclaim VAT on the purchase

This is the big one, and it is also why the scheme rarely costs anybody anything in practice. You give up input tax on goods you bought from someone who could not charge you VAT in the first place. There was nothing to reclaim, so nothing is lost.

The moment that stops being true is the moment you should stop using the scheme for that item. If a VAT-registered wholesaler invoices you with VAT on it, take the input tax and sell the item under the standard rules. Trying to run a VAT-charged purchase through the margin scheme is not a close call, it is not allowed.

You cannot show VAT on your invoice

A margin scheme invoice must not show a VAT amount. Your buyer therefore has nothing to reclaim, whoever they are.

For consumers this is irrelevant, because they could not reclaim it anyway. For VAT-registered business buyers it is a real disadvantage: the same item costs them a sixth more in net terms than it would from a standard-scheme seller. If you sell mostly to businesses, price that in or stay on the standard rules.

A loss cannot be used

If you sell at or below what you paid, the margin is nil or negative and there is no VAT to pay on that item. That much is good. What you cannot do is set the loss against the margin on anything else.

> SAID PLAINLY
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> A bad sale under the margin scheme is neutral, not helpful. Nil margin means nil VAT on that item and nothing carried across to reduce the VAT on the next one.

CHAPTER THREE

What actually qualifies

Four categories of goods are eligible, and the boundaries matter more than they look, because using the scheme on something ineligible costs you VAT on the full selling price of everything HMRC cannot verify.

The four categories

- Second-hand goods: tangible movable goods that are suitable for further use as they are, or after repair.
- Works of art, with exclusions that catch out more people than expected.
- Antiques, meaning goods more than a hundred years old.
- Collectors' items: stamps, coins, currency, and pieces of scientific, historical or archaeological interest.

What is excluded

Excluded	Why
Anything new	The scheme is for goods that have had a previous life.
Anything bought on a VAT invoice where you reclaimed the input tax	You have already had the relief. You cannot have it twice.
Precious metals	Excluded outright.
Investment gold	Has its own regime.
Precious stones	Excluded outright.

The works of art category has its own carve-outs, and technical drawings, theatre scenery and hand-decorated manufactured items are the ones that surprise people. There are also special rules for works of art, antiques and collectors' items imported from outside the EEA, and for works bought directly from the artist or their heirs. If your trade is in art rather than in general second-hand goods, read the notice itself rather than any summary, including this one.

> THE PRACTICAL TEST
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> Ask one question about every purchase: was I charged VAT on it and did I reclaim it? If yes, standard rules. If no, and the goods are second-hand, the scheme is available.

CHAPTER FOUR

The stock book is the condition

This is the chapter that matters. Everything above is arithmetic and eligibility. This is the part that decides whether you actually get the scheme when somebody asks.

Keeping the stock book is not administration that follows from using the scheme. It is a condition of using the scheme at all. Goods can be perfectly eligible, your arithmetic can be perfectly correct, and the scheme can still be refused because the record is not there.

> WHAT HMRC SAYS HAPPENS
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> If HMRC cannot check the margins you have declared from your records, VAT falls due on the full selling price of the goods, even where they were otherwise eligible for the scheme.

Read that again with a real number attached. On the sample book later in this chapter, the scheme saves £61.25 across sixteen items. If the record will not support it, the exposure is not £61.25. It is the VAT on every selling price, which on that book is £179.38, and HMRC can look back years.

The twelve columns

VAT Notice 718 names twelve columns. Six describe the purchase and six describe the sale. A book missing any of them is not a stock book.

	The purchase	The sale
1	Stock number, in sequence	Date of sale
2	Date of purchase	Sales invoice number
3	Purchase invoice number	Name of the buyer
4	Purchase price	Selling price, or method of disposal
5	Name of the seller	Margin, being selling price less purchase price
6	Description of the item	VAT due on the margin

The column people leave out

The name of the seller. It is the hardest one to fill in when you buy at a car boot at eight on a Sunday morning, and it is the one an inspector will look at first, because it is the column that makes the purchase price checkable.

You will not always get a name. You can always write down something that identifies the seller: the pitch number, the market, the stall, a description. A dated line saying "Stall 42, Epsom car boot, denim jackets, £48 for six" is a record. A blank cell is not.

Unsold stock stays on the book

An item you have bought and not yet sold belongs on the book with its six purchase columns complete and the sale columns empty. That is not an incomplete row, it is a stock record. It is also how the book proves your closing stock at the year end, which your accounts need anyway.

> **HOW LONG TO KEEP IT**
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> Six years, like the rest of your VAT records. The stock book is the last thing to throw away, because it is the only document that proves the margins you declared.

CHAPTER FIVE

When it beats standard VAT

The scheme is optional item by item, which means the real question is never whether to use it but when. There is a clean rule and a short list of exceptions.

The rule

Use the margin scheme when you were not charged VAT on the purchase. Use the standard rules when you were. That single test gets the right answer almost every time, because the scheme exists precisely to relieve the VAT that gets trapped when goods re-enter the VAT chain from outside it.

Where you bought it	Was VAT charged?	Use
Private individual	No	Margin scheme
Car boot, charity shop, house clearance	No	Margin scheme
Another margin scheme dealer	No, and none shown	Margin scheme
Unregistered trader	No	Margin scheme
VAT-registered wholesaler	Yes	Standard rules, reclaim the input tax
Auction house, on a VAT invoice	Depends on the lot	Read the invoice

The exceptions

First, if you sell mostly to VAT-registered businesses, the standard rules may serve you better even on goods bought VAT-free, because your buyer can reclaim what you charge. You will pay more VAT and be able to charge a higher price for it. Whether that nets out in your favour depends on your market.

Second, if the goods will be exported or zero-rated, the standard rules give you a zero-rated sale and no VAT at all, which beats any margin. Do not run a zero-rated sale through the margin scheme.

Third, if you cannot keep the record, do not use the scheme. That is not a moral position, it is arithmetic: the expected cost of a refused scheme is far larger than the saving, and the saving is small on cheap stock.

> THE HONEST VERSION
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> On a book of low-value items bought for a few pounds each, the scheme saves pennies an item and asks for twelve columns of paperwork. Do the sums before you take on the record-keeping.

CHAPTER SIX

Global accounting, the simpler version

For sellers moving large numbers of cheap items, itemising is not realistic. Global accounting is the variant that works on totals for a period rather than item by item, and it exists for exactly that case.

How it differs

Instead of a margin per item, you take your total eligible purchases in the period and your total eligible sales, and pay VAT on the difference. There is no need to match a sale to the purchase it came from, which is the whole point when you buy job lots and sell them piecemeal.

A negative global margin in one period can be carried forward to the next, which is a genuine advantage over the item-by-item scheme where a loss is simply wasted.

What it will not cover

Two limits, and they are hard limits.

- No single item purchased for more than £500 may go through global accounting. It can still go through the ordinary margin scheme, with its own row and its twelve columns.
- Five categories are excluded whatever they cost: aircraft, boats and outboard motors, caravans and motor caravans, horses and ponies, and motor vehicles, unless the vehicle is broken up for scrap.

> READING THAT LIST
>
> Every excluded category is a high-value item with its own registration or logbook. The exclusions are there so that individually traceable assets stay individually traced.

It still needs records

Global accounting is simpler, not exempt. You still need to be able to show total eligible purchases and total eligible sales for each period, and the same consequence applies if you cannot: VAT on the full selling price.

CHAPTER SEVEN

The paperwork on both sides

Two documents matter and most sellers only think about one of them.

What you give the buyer

A margin scheme invoice shows the total price and no VAT amount. It should also make clear that a margin scheme applies, so that a business buyer understands why there is nothing to reclaim rather than assuming you forgot.

Do not show a VAT rate, do not show a VAT amount, and do not issue a normal VAT invoice by accident from your accounting software. Software defaults are the commonest cause of this going wrong, because the default is a standard VAT invoice and nobody changed it.

What you get from the seller

This is the half that gets forgotten. When you buy from a private individual there is no invoice to receive, so you have to create the record yourself at the point of purchase.

Write down the date, the seller's name or a description that identifies them, the item, and what you paid. Number it and it becomes your purchase invoice number for the stock book. That takes about twenty seconds and it is the difference between a defensible margin and a full-price VAT assessment.

Bought from	What you need
A private individual	Your own dated purchase note, numbered.
Another dealer using the scheme	Their invoice, which will show no VAT.
An auction house	The invoice. Check whether the lot was sold under a margin scheme.
A VAT-registered business	A VAT invoice, and then do not use the margin scheme on it.

CHAPTER EIGHT

A book, worked through

Sixteen items bought over three months, fourteen of them sold. This is what the numbers look like at the scale most second-hand sellers actually operate.

Item	Paid	Sold for	Margin	VAT due
Vintage denim jacket	£12.00	£49.95	£37.95	£6.33
Retro camera	£34.00	£94.95	£60.95	£10.16
Boxed Lego set	£55.00	£134.95	£79.95	£13.33
Designer handbag	£95.00	£246.95	£151.95	£25.33
Wristwatch, serviced	£72.00	£189.45	£117.45	£19.58
Film camera lens	£28.00	unsold		
Brass lamp	£26.00	unsold		
Fourteen sold, of sixteen	**£367.50**	**£1,076.29**	**£708.79**	**£118.13**

What the scheme saved

	Across the book
VAT under the standard scheme	£179.38
VAT under the margin scheme	£118.13
Saved	**£61.25**
A sixth of what the sold items cost	£61.25

The last two lines are the same number, and that is not a coincidence in this example. It is the identity from chapter one holding across a whole book: the total saving is the VAT fraction of everything you paid for the items you sold, and it holds whenever every sold item made a margin.

> THE EXCEPTION TO WATCH
>
> Sell one item at a loss and the two lines part company. On a loss-making item the scheme saves the whole standard-scheme VAT rather than a sixth of the purchase price, because there was no margin to tax.

And what it cost

Sixteen rows of twelve columns. If each takes a minute at the point of purchase and another at the point of sale, that is about half an hour of typing across a quarter, for £61.25 and a defensible position. On a bigger book of dearer stock the same half hour is worth several hundred pounds.

CHAPTER NINE

When it goes wrong

Four failure modes, in rough order of how often they are seen.

The record that was never kept

By far the commonest. The seller used the scheme, declared margins, and kept the purchases in a shoebox. There is no defence available at that point, because the notice does not require good records as a matter of best practice. It requires them as a condition.

If this is you and nobody has asked yet, the answer is to start the book today for everything you still hold, and reconstruct what you can for what you have sold. A reconstructed record is weaker than a contemporaneous one and enormously stronger than none.

Input tax reclaimed as well

Reclaiming VAT on the purchase and then selling under the margin scheme is having it both ways. It usually happens by accident, when a standard-rated purchase is entered in the same place as everything else, and it is straightforward for HMRC to spot because the purchase invoice exists.

VAT shown on a margin scheme invoice

Almost always the accounting software rather than the seller. If you show VAT on an invoice you must account for it, so this one costs you money immediately rather than at an inspection.

Ineligible goods in the scheme

New stock mixed in with second-hand, or an item bought on a VAT invoice going through as though it were not. The remedy is the same test as chapter five: was VAT charged on the purchase.

> IF YOU FIND ONE OF THESE IN YOUR OWN BOOKS
>
> Correcting it yourself before HMRC asks is materially cheaper than being found. Unprompted disclosures attract substantially lower penalties, and in some cases none at all.

CHAPTER TEN

Deciding

Five questions, in order. If you can answer all five, you have your answer.

	Question	If no
1	Are the goods second-hand, art, antiques or collectors' items?	Standard rules.
2	Were you charged VAT on the purchase?	Good. Continue.
3	Will you sell mostly to consumers rather than to VAT-registered businesses?	Consider standard rules.
4	Will the sale be UK, rather than zero-rated or exported?	Standard rules will be better.
5	Can you keep twelve columns per item, every item?	Do not use the scheme.

Question two is inverted on purpose. It is the one people misread, so it is worth stating both ways: you want the answer to be no. VAT charged on your purchase means the standard rules, because you can reclaim it.

If the answer is yes

Open a stock book before you buy the next thing, not before you sell it. The purchase columns are the ones that cannot be reconstructed, and the seller's name is gone the moment you leave the stall.

If the answer is no

You have lost nothing. The standard rules with input tax recovery are simpler, and on stock bought from VAT-registered suppliers they leave you in the same place or better. The margin scheme is a relief for a specific situation, not a prize for the diligent.

> THE ONE LINE TO KEEP
>
> The margin scheme saves you the VAT fraction of what you paid, it never touches what you sell for, and it is conditional on a twelve-column record you have to keep as you go.

Zazen Tax

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