

247. VAT margin scheme for horses: warning

The second-hand goods margin scheme is an optional VAT scheme that can be used in certain circumstances to benefit a VAT-registered business, where VAT was not charged on the initial purchase. There is therefore an opportunity for VAT-registered horse dealers and 'pinhookers' to benefit from this scheme by not having to account for VAT on the entire sales price, keeping prices lower, boosting demand and helping the profitability of struggling equine businesses. However, using the scheme post-Brexit requires extra caution.

The facts are that HMRC's *VAT Margin Schemes Manual* states at VATMARG09000 that the margin scheme is available to a person who is chargeable to VAT (ie, in business and commercially trading) on the sale of a horse on whose original purchase they did not recover input tax, subject to the various conditions of that scheme as set out in *Selling horses and ponies if you use a VAT margin scheme (VAT Notice 718)*. The advantage for traders is that if the transaction is within the scope of VAT, the VAT due will be one-sixth of the margin made on the animal in question, rather than output VAT being charged on the proceeds.

The second-hand goods VAT margin scheme is no longer applicable, with the exception of Northern Ireland, when considering buying horses from private individuals in the EU or where the purchase might have been within an EU margin scheme. The reasoning is that since Brexit, all second-hand goods from the EU have become imports on which VAT is levied on arrival in the UK, taking the margin scheme off the table for many more transactions. This means dealers who previously used the second-hand margin scheme and who source horses from EU nations could face higher

VAT liabilities, as VAT now needs to be charged on the full sales price.

There has not been any specific announcement made to publicise this change and HMRC's margin scheme guidance for buying and selling horses is silent on EU imports. Therefore, many international horse dealers in Britain may be unaware of the change in their VAT position and may have miscalculated their VAT liability since 1 January 2021. UK dealers of horses from EU nations have lost their right to account for VAT on a sale under the VAT margin scheme and many traders may have failed to realise the impact.

Further problems include that the sale of private horses and horses used in a business can be easily confused within the industry. The different VAT schemes available can make determining the correct treatment extremely complicated. In addition to identifying when VAT should be applied to an equine transaction, those in the industry should have an understanding of both the *Registration scheme for racehorse owners (VAT Notice 700/67)* and the margin scheme, as well as being aware of the complication involved with part-share sales of horses. These problems are further complicated by the VAT position on livery, which can be a mix of exempt, zero- and standard-rated VAT on supplies all within the same business.

It is essential for equine businesses to confirm the VAT position on all transactions they are involved with. The treatment of livery and horse sales (including overseas) can be complex and is often misunderstood. If in doubt, take specialist advice.

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