

## When is a horse like a second-hand car?

There is an opportunity for horse dealers and 'pinhookers' to benefit from this scheme and help the profitability of struggling equine businesses. It is essential for all equine businesses to confirm the VAT position. The recent case of *Alexander Spencer-Churchill* (TC3763) has highlighted the need to consider single transactions in the context of VAT and business registration. The treatment of liveryes and horse sales can be very complex and misunderstood.

### **Purchasing and selling horses under the Second Hand Goods Margin Scheme**

The Second Hand Goods Margin Scheme is an optional VAT scheme which can be used in certain circumstances to benefit the business. This Scheme is most beneficial in the situation where the trader purchases goods from businesses or individuals that are not registered for VAT, and therefore is unable to reclaim input VAT on the purchase. Normally this would mean that when the business comes to sell the item, they would be liable for output VAT on the full sale price. This puts businesses at a certain disadvantage if they regularly deal with this type of customer. The terms of using the Scheme are quite strict; however the basic principles are as follows:

- The Scheme allows a lower rate of input or output? What is the lower rate? VAT to be paid over, when the seller which you purchased the item from is not registered for VAT, ie an individual.
- The goods must be second hand when purchased, and cannot be, in the case of horses and ponies, animals that have been bred by yourself.

- A detailed stock book must be maintained to ensure that the purchase price of the stock is easily able to be identified, and therefore the margin on the sale is able to be calculated.
- The Scheme can be used in conjunction with sales which do not qualify under the Scheme (ie sales not of second-hand goods or those which input VAT is able to be claimed).

### **Benefit of detailed record keeping**

One of the main conditions of using the Scheme, is that very detailed record keeping in relation to the purchase of the stock must be maintained. This is to ensure that there are no abuses of the system. The stock book should contain the following entries:

- Stock number in numerical sequence;
- Date of purchase;
- Purchase invoice number;
- Name of seller; Details of the product purchased – in terms of a horse or pony, this would need to include the details such as:
  - Unique identifying passport number;
  - Colour;
  - Sex;
  - Type of breed;
  - Age (if known);
  - Height;
  - Stable name (if known); and
  - Distinctive markings.

There are specific forms which can be obtained from the British Equestrian Trading Association (BETA), as an alternative to keeping detailed records such as the above.

### Sales invoices

The details that are required to be disclosed on the sales invoice will be slightly different from that of normal sales invoices that are normally raised, as these will fall within the Margin Scheme rules. The sales invoice should therefore disclose the following additional items:

- A method to cross reference the sales invoice to the stock book;
- The output VAT on the sale **MUST NOT** be shown separately on the invoice, although output VAT will need to be paid over on this sale. Output VAT will need to be paid over on this sale but **MUST NOT** be shown separately on the invoice and therefore included within the total price; and
- The description 'Margin Scheme – Second hand goods' must be disclosed on the invoice.

### Practical advantages

The fact is that the sports horse industry has such a large mix of business and non-business players, ie VAT registered

and non-VAT registered interactions, this scheme can be very useful to minimise the VAT disadvantage.

The recent tax tribunal cases of disputing the commerciality of equine businesses, *Thorne and Murray*, have highlighted the need for equine operations to consider evidence of commerciality. This scheme can be used to improve the structure of the operation including VAT registration and optimising VAT opportunities. This in turn can help with commerciality and profitability.

More detailed information can be found in VAT Notice 718 The VAT Margin Scheme and Global Accounting [https://www.gov.uk/government/publications/vat-notice-718-the-vat-margin-scheme-and-global-accounting](https://www.gov.uk/government/publications/vat-notice-718-the-vat-margin-scheme-and-global-accounting/vat-notice-718-the-vat-margin-scheme-and-global-accounting)

---

Supplied by **Julie Butler F.C.A.** Butler & Co, Bennett House, The Dean, Alresford, Hampshire, SO24 9BH. Tel: 01962 735544. Email: [j.butler@butler-co.co.uk](mailto:j.butler@butler-co.co.uk), Website: [www.butler-co.co.uk](http://www.butler-co.co.uk)

**Julie Butler F.C.A.** is the author of *Tax Planning for Farm and Land Diversification (Bloomsbury Professional)*, *Equine Tax Planning ISBN: 0406966540*, and *Stanley: Taxation of Farmers and Landowners (LexisNexis)*.

---

**Editor:** GR Williams, Solicitor

**Editorial consultants:** Julie Butler, Chartered Accountant, FCA Butler & Co, J Neil Porter, Solicitor, Frank Nash, Taxation partner, Burgis & Bullock, Chartered Accountants, Oliver Stanley, Barrister, Director of Rathbone Brothers plc, Angela Sydenham, Solicitor, Birketts Solicitors

**Sales:** Rhodri Taylor • 020 7017 7787 • [rhodri.taylor@informa.com](mailto:rhodri.taylor@informa.com)

**Subscriptions orders and back issues:** Please contact us on 020 7017 5540 or email [subscriptions@informa.com](mailto:subscriptions@informa.com). For further information on other finance titles produced by Informa please call 020 7017 5540. ISSN 0268-9863 © Informa UK Ltd 2015

**Published 10 times a year by:** Informa Law, Christchurch Court, 10-15 Newgate Street, London, EC1A 7AZ • [www.informa.com](http://www.informa.com)

**Typeset by:** Deanta Global Publishing Services

**Printed by:** Halstan Printing Group

**Copyright:** While we want you to make the

best use of *Farm Tax Brief*, we also need to protect our copyright. We would remind you that copying is illegal. However, please contact us directly should you have any special requirements. While all reasonable care has been taken in the preparation of this publication, no liability is accepted by the publishers nor by any of the authors of the contents of the publication, for any loss or damage caused

to any person relying on any statement or omission in the publication. All rights reserved; no part of this publication

may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electrical, mechanical, photocopying, recording, or otherwise without the prior written permission of the publisher.

Registered Office: Mortimer House, 37-41 Mortimer Street, London W1T 3JH. Registered in England and Wales No 1072954.

This newsletter has been printed on paper sourced from sustainable forests.

**informa**  
law  
an informa business