

Introduction

VAT retail schemes are specifically for retailers who cannot account for VAT in the normal way, for example because they sell a high volume of low-value items at more than one VAT rate. Under normal VAT accounting rules, retailers must account for the VAT on each of these items separately, which can be costly and time consuming. Under VAT retail schemes, retailers only need to account for VAT on the total value of VAT-taxable sales in a particular period rather than on each individual sale.

There are several different types of VAT retail scheme, including 'standard' schemes and sector-specific arrangements.

This factsheet explains what the VAT retail schemes are and how they operate. It is intended as an introduction only and is not comprehensive. Appropriate professional advice should be taken where necessary.

Standard VAT retail schemes

There are three standard VAT retail schemes: the Point-of-Sale Scheme, the Apportionment Scheme and the Direct Calculation Scheme.

Point-of-Sale Scheme

This is the simplest VAT retail scheme to operate and produces the most accurate results. Under this scheme, the retailer identifies the VAT rate for each item sold at the point of sale, usually via an electronic point-of-sale (EPOS) system that can differentiate between items sold at different VAT rates. The EPOS system calculates the total value of sales made at each VAT rate, allowing the retailer to work out the amount of VAT that is due.

For more information, go to www.gov.uk/vat-retail-schemes/point-of-sale-scheme.

Apportionment Scheme

Retailers who do not want to use the Point-of-Sale Scheme, for example because they do not have an EPOS system, can choose to use the Apportionment Scheme. Under this scheme, the retailer works out the proportion of items they buy for retail sale at each VAT rate, then applies those proportions to the total value of their retail sales. The Apportionment Scheme can only be used by retailers whose annual turnover is £1 million or less. However, there is a separate version of the scheme for retailers whose turnover is more than £1 million.

For more information, go to www.gov.uk/vat-retail-schemes/apportionment-scheme.

Direct Calculation Scheme

This scheme is suitable for retailers who make a small proportion of sales at one VAT rate and the majority at another rate. It generally requires a retailer to work out the expected selling price of 'minority goods', which are items at the rate of VAT that makes up the smallest proportion of their retail sales total. The Direct Calculation Scheme can only be used by retailers whose annual turnover is £1 million or less. However, there is a separate version of the scheme for retailers whose turnover is more than £1 million.

For more information, go to www.gov.uk/vat-retail-schemes/direct-calculation-scheme.

Sector-specific arrangements

There are specific VAT accounting rules and arrangements for retailers in certain sectors, as follows:

- Special arrangements for florists and other retailers who are members of delivery networks such as Interflora and Teleflorist (www.gov.uk/guidance/retail-schemes-notice-727#special-arrangements-for-florists).
- The catering adaptation (www.gov.uk/guidance/retail-schemes-notice-727#catering-adaptation).
- The retail chemist adjustment (www.gov.uk/guidance/retail-schemes-notice-727#retail-chemist-adjustment).

Using VAT retail schemes

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

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

Using retail schemes with other VAT schemes

VAT retail schemes can be used with certain other VAT schemes. For example, the Annual Accounting Scheme and the Cash Accounting Scheme are compatible with VAT retail schemes, but the Flat Rate Scheme and VAT margin schemes are not.

Useful resources

'VAT Retail Schemes'

HMRC

www.gov.uk/vat-retail-schemes

'Retail Schemes (VAT Notice 727)'

HMRC

www.gov.uk/guidance/retail-schemes-notice-727

'Point of Sale Retail Scheme (VAT Notice 727/3)'

HMRC

www.gov.uk/guidance/vat-point-of-sale-retail-scheme-notice-7273

'Apportionment VAT Retail Schemes' (VAT Notice 727/4)'

HMRC

www.gov.uk/guidance/how-to-use-the-vat-retail-apportionment-scheme-notice-7274

'Direct Calculation Retail Schemes (VAT Notice 727/5)'

HMRC

www.gov.uk/guidance/vat-direct-calculation-retail-schemes-notice-7275

Email Updates, Videos and Webinars for VAT

HMRC

www.gov.uk/guidance/help-and-support-for-vat

Related factsheets

BIF045 VAT Returns and Payments

BIF234 An Introduction to VAT (Value Added Tax)

BIF505 VAT Margin Schemes

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