

Irish VAT Margin Scheme Changes – January 2010

What is the VAT Margin Scheme

The VAT Margin scheme is a method whereby (with Irish Revenue approval) you only need to pay VAT on the **GROSS** margin when selling second hand machinery to non-vat registered customers where the VAT was paid previously, and not reclaimed.

Under the new legislation qualifying Equipment purchased from January 1st 2010 will be margin scheme Equipment and VAT is based on 21% of the difference between what you purchase the Equipment for and what you sell it for.

For example, if the purchase price is 11,000 and it is sold for 12,000, vat is calculated on the margin of 1,000, which works out to 173.55. However, the VAT element is not shown on your sales invoice but is reflected in your accounts.

If sold for a loss, no VAT is payable or a refund due.

What is Covered Under Margin Scheme?

Used machinery or vehicles purchased from a seller who is **not** vat registered and therefore has not deducted vat from the original purchase is covered under the margin scheme, the new margin scheme invoice type should be used for sales of this type. These items will have the Qualifying flag set to 'No' to indicate that they do not qualify for standard vat.

What is Not Covered Under Margin Scheme?

Farm machinery received from a VAT registered source and new vehicles are not covered under the margin scheme and should be sold on the standard Wholegood new machinery invoice type. These items will have the Qualifying flag set to 'Yes' to indicate that standard vat rules apply.

Gold Set up

*A Gold update is on its way to you and **MUST** be loaded **ONLY** when all equipment has been invoiced using the 2009 legislation. After the update is loaded the new legislation will apply.*

When running Gold after the update has been installed a VAT Changes Conversion routine will run automatically and set an option called "Qualifying" on all used wholegoods in stock to 'Yes'. This indicates that the wholegoods qualify for full vat.

Gold can calculate the VAT due on transactions under the scheme as long as the correct setup is in place.

VAT Code 8 needs to be set at the current standard rate of VAT. The machine **must** be sold on an invoice type with the program code of **Used Equipment Sales**.

A new invoice type is needed for Used Equipment Sales.

Gold support will be in contact with you to help set up this new margin scheme invoice type and ensure nominal codes are correctly mapped.

Invoice Type Set-up

On the "VAT Codes" tab the Default Zero VAT Code should be set to a valid zero percent VAT rate.

Wholegood Invoicing

When creating a new wholegood advice, you need to determine whether the Equipment being sold is covered under the new margin scheme, is not covered under the new margin scheme or was in stock at the 31st December. Depending on this you will need to select an invoice type, which will tell the system how to calculate the VAT when raising a sales invoice or credit note under the following sections:

Equipment covered by the Margin Scheme

If **Used** equipment qualifies to be sold under the margin scheme, the new margin scheme invoice type (as created by Ibcos) must be selected. The invoice will not show the calculated vat but will allow for it in you accounts. New Equipment should not be sold using this method.

When creating the wholegoods record it will set the VAT code as 9 – the system uses VAT Code 8 when you sell the Equipment so that the margin VAT is separated out when reporting VAT.

Equipment purchased from a customer who does not have a vat registration number will be set to “**Qualifying – No**” and is sold under the new margin scheme. VAT is calculated on the margin only. The margin is calculated from the Retail price less the wholegood Purchase price.

Only equipment with Qualifying set to ‘No’ can be sold in the margin scheme. If manual intervention is required the qualifying Yes/No flag can be changed in the wholegood Amend Stock Records program.

Equipment NOT covered by the Margin Scheme

New Equipment or used equipment where the vat has been reclaimed, the full VAT is due even on this used piece of equipment. Thus, your existing used equipment invoice type must be selected where VAT is calculated on the whole sales value and shown on the invoice.

Equipment purchased from a customer with a vat registration number will be set to “Qualifying – Yes” and should be sold on the normal Machinery Sales invoice type. VAT is calculated on the full value.

Equipment with the Qualifying flag set to No cannot be sold under this invoice type.

Which Invoice Type to Use

It is important to use the correct invoice type, either Machinery Sales or Used Equipment Sales as described above. The Qualifying flag may be manually changed on an equipment record (wholegood Amend Stock Records) if necessary. Warnings will be displayed if equipment selected for sale does not match the invoice type used.

Equipment in Stock on the 31st December 2009

Equipment that was handled under the special VAT scheme will remain in the special scheme until disposed of and the full amount of VAT should be shown on the invoice. This is still true even if the equipment is sold in 2010.

The existing used equipment invoice type should be selected for this type of transaction and then the whole VAT will be calculated on the sales value.

FTMTA Examples

Dealers in second-hand vehicles and agricultural machinery may opt to apply the margin scheme to their sales on or after 1st January 2010.

Example 1

Under the margin scheme a dealer who sells second-hand means of transport or agricultural machinery should account for 21% VAT included in the margin. The dealer is not entitled to claim residual VAT in the purchase price.

Example 1:	€
Dealer's Sale Price	16,000
Less Dealer's Purchase Price	14,000
Dealer's Margin	2,000
VAT on Sale (€ 2,000 * 21/121)	347
Input Credit	0

Transitional Measures

Transitional measures will apply for the taxable periods between 1 January 2010 and 20 June 2010, whereby the dealer will be entitled to claim a percentage of the residual VAT in the purchase price.

Ibcos Gold will not automatically handle the residual VAT options. All accounting for residual VAT values claimed will need to be carried out manually.