Supplies of second-hand goods

This document should be read in conjunction with section 87 of the VAT Consolidation Act 2010 (VATCA 2010)

Document last reviewed March 2023

Margin Scheme - Second-Hand Goods (including Second-hand Means of Transport and Agricultural Machinery)

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1. Introduction

This guidance sets out the VAT treatment of works of art, collectors' items and antiques, and second-hand movable goods, in particular the system known as the 'margin scheme'.

The margin scheme applies to second-hand vehicles and second-hand agricultural machinery acquired by dealers as stock-in-trade on or after 1 January 2010.

2. Margin scheme

The margin scheme was introduced as a means of reducing the likelihood of double taxation in the context of the sale of second-hand goods.

It operates by allowing dealers in certain second-hand goods, works of art, antiques and collectors' items to pay VAT on the difference between the sale price and the purchase price of the goods.

The scheme is at the option of the dealers concerned. If the dealer chooses not to operate the margin scheme then the normal VAT rules apply.

3. Margin Scheme Invoice

An invoice issued by an accountable dealer in respect of a supply under the margin scheme must not show VAT separately. Any such invoice should be clearly endorsed 'Margin Scheme’ - this invoice does not give the right to an input credit of VAT'.

4. Who are accountable dealers?

Accountable dealers are persons who deal in margin scheme goods as set out in paragraph 5, either on their own behalf or on commission for others. Finance houses involved in hire purchase transactions of margin scheme goods are also accountable dealers for the purposes of the scheme.

5. What are margin scheme goods?

Goods which qualify for the margin scheme are:

- second-hand movable goods (including means of transport and agricultural machinery as described in Appendix V which are taken into stock by the dealer on or after 1 January 2010)
- certain works of art, collectors items and antiques as described in Appendices 1 & III

- specified precious metals and precious stones other than those described in Appendix II.

For the purposes of the margin scheme, second-hand goods are, broadly speaking, movable goods which are suitable for use either as they are or after repair.

6. The sources of margin scheme goods

Margin scheme goods are the goods referred to in paragraph 5, purchased for resale, by dealers from specific sources in the EU, as follows:-

- private individuals, or
- exempt bodies (e.g. bank, insurance company, etc.) or accountable persons who were not entitled to any input credit for VAT on purchase of the goods. (Goods purchased from accountable persons with partial deductibility in respect of those goods cannot however be included in the margin scheme), or
- another dealer operating the margin scheme for the supply in question, or
- a person who is an insurance company which took possession of the goods in connection with the settlement of a claim under a policy of insurance from a person who was not entitled to input credit in respect of the goods.

Effectively, therefore, this means that the margin scheme applies to the sale of goods by a dealer which were acquired by him or her from persons who could not have issued a VAT invoice or, in the case of purchases from other dealers under the scheme, where the dealer issued an invoice which does not show VAT separately.

The margin scheme can also be applied to certain works of art, collectors' items or antiques which would not normally qualify for inclusion in the scheme because of their source, i.e. imported from outside the EU.

These items are listed in Appendix I (items 2 and 3), and in Appendix III (item 2), which also includes special rules relating to what is termed the "extended margin scheme".

7. How the margin scheme operates

The margin scheme provides that VAT is payable on the sale of margin scheme goods by reference to the difference between the sale price and the purchase price of the goods. This is illustrated as follows:

- Dealer's sale price of goods €500
- less dealer's purchase price €300
- Dealer's Margin €200

The dealer's margin is a tax-inclusive amount. For supplies liable at the standard rate, in this example 23% is the standard rate used, the VAT payable is:

(€200 X 23) / 123 = €37.40

The margin for the purposes of this scheme is the difference between the sale price and purchase price of the goods. This margin should not be reduced by deducting the cost of repairs, accessories, overheads, etc.

Where the sale price is less than the purchase price, the margin is regarded as being nil and there is no VAT due on the sale. It should be noted that in such cases the dealer is not entitled to a refund of VAT in respect of the loss nor can it be offset against profits from other transactions. (However, see paragraph 14 for special simplified arrangements for low-value goods).

8. Rates

The general rule is that the rate applicable to a margin scheme supply is the rate applicable to a normal supply. However, there are some exceptions to this rule and these are itemised in Appendix I. In the case of those goods the standard rate applies when they are sold under the margin scheme, even though a different rate applies when they are sold under normal VAT rules.

9. Deductibility

A dealer operating the margin scheme cannot claim deductibility for any VAT included in the purchase price of margin scheme goods.

10. Invoices

Where an invoice is issued by an accountable dealer in respect of goods supplied under the margin scheme this invoice must not show VAT separately. Any such invoice should be clearly endorsed 'Margin Scheme - this invoice does not give the right to an input credit of VAT'.

This means that an accountable person is not entitled to deductibility in respect of any VAT included in the purchase price of goods sold to him or her under the margin scheme.

However, see paragraph 13 below for the option to apply the normal rules, where an accountable dealer is selling margin scheme goods to an accountable person.

11. Goods bought from other Member States of the EU

Where a dealer sells margin scheme goods that were bought from the persons mentioned in paragraph 6 above in another Member State she or he should apply the margin scheme in the same way as if the goods were bought in the State i.e. VAT is payable on the dealer's margin and there is no VAT deductibility. If the goods have been bought from another dealer operating the margin scheme in another Member State the normal VAT rules in relation to the intra-Community acquisition of goods **do not** apply. **Any VAT included in the price charged in the other Member State is not deductible and would not, as a general rule be shown separately on the invoice.**

12. Sales of goods to other Member States of the EU

Irish VAT is always payable on sales under the margin scheme to persons (including accountable persons) in other Member States. However, the VIES reporting requirements do not apply to such sales. As at paragraph 10 above, **VAT must not be shown separately on the sales invoice.**

13. Normal VAT rules

The margin scheme is generally advantageous to dealers because it reduces their VAT liability. The dealer can, of course, opt to apply the normal VAT rules to any supply. This is more likely to occur where she or he is selling to a customer who is an accountable person and who requires a VAT invoice in order to recover his or her VAT inputs.

'Normal VAT rules' mean that VAT is chargeable on the full selling price, instead of on the margin, and a VAT-registered customer is entitled to be issued with a VAT invoice in relation to the supply. **The dealer him or herself may not however claim any VAT credit in relation to his or her purchase.**

14. Simplified arrangements for low-value goods (Globalisation)

Simplified arrangements for the calculation of the margin must be applied to low-value margin scheme goods.

Low-value margin scheme goods are defined as goods where the purchase price of each individual item is less than €635. Individual items subsequently sold for an amount in excess of €635 cease to qualify for the simplified arrangements.

The simplified arrangements provide that a dealer accounts for VAT on his or her global profit margin. The global margin is the difference between the value of sales and purchases of all low-value margin scheme goods at each VAT rate in each taxable period.

Goods purchased from accountable persons with partial deductibility in respect of those goods cannot be included in a globalisation arrangement.

Where the total purchases exceed the sales in any taxable period the dealer is not entitled to a refund of VAT nor should the deficit be set off against any other liability for that period. Instead, the negative margin should be carried forward and added to the purchases of low-value margin scheme goods in calculating the global margin for the next taxable period. This can be illustrated by an example:

Taxable Period 1	**€**
Sales	3,000
Purchases	2,000
Margin	1,000 including VAT at 23%

(1,000 x 23) / 123 = €187.00 VAT payable

Taxable Period 2	
Sales	2,000
Purchases	3,000
Negative margin	1,000 No VAT payable

Taxable Period 3	
Sales	3,000
Purchases	1,500
Negative margin for period 2	1,000
Margin 500	

(500 X 23) / 123 = €93.49 VAT payable

This example assumes that all goods sold qualify for globalisation.

Where the global accounting procedure is applied to goods chargeable at different VAT rates, a separate margin must be calculated for each rate. Where a negative amount arises in calculating the global margin at any tax rate that amount should be carried forward and used in calculating the global margin at that rate for the next period.

Where a low-value margin scheme item is subsequently sold for more than €635 it no longer qualifies for globalisation. Instead, the sale should be dealt with under the margin scheme. This means that the purchase price of the item should be deducted from the total purchases of low-value margin scheme goods in the period in which the sale takes place.

Occasionally, a dealer may wish to sell a low-value margin scheme item under the normal VAT rules, e.g. if his or her customer is an accountable person who requires a VAT invoice. In that case again, as above, the purchase price of the item should be deducted from the total purchases of low-value margin scheme goods in the period in which the sale takes place. Normal VAT rules, as at paragraph 13 above will then apply.

15. Records

An accountable dealer must keep records in sufficient detail to allow the margin to be calculated in respect of individual transactions and global margin at each VAT rate to be calculated in the case of global accounting transactions. In addition, if an accountable dealer applies both the normal scheme and the margin scheme (including the globalisation arrangements), she or he must keep separate records in relation to each scheme.

Appendix I

Second-Hand Goods, Works of Art and Antiques which are normally liable for VAT at the reduced rate, but which would be liable at the standard rate on the Dealer's Margin, if sold under this Scheme

1. **Second-hand goods:**
    - ready to pour concrete
    - concrete blocks which comply with the specification contained in the Irish Standard I.S. EN 771-3:2011 Specification for masonry units – Part 3 : Aggregate concrete masonry units (dense and lightweight aggregates)
2. **Works of Art, defined as follows:**
    - paintings, drawings or pastels or any combination thereof, executed entirely by hand but excluding hand-decorated manufactured articles, and plans and drawings for architectural, engineering, industrial, commercial, topographical or similar purposes;
    - original lithographs, engravings or prints or any combination thereof, produced directly from lithographic stones, plates or other engraved surfaces, which are executed entirely by hand;
    - original sculptures or statuary, excluding mass produced reproductions and works of craftsmanship of a commercial character.
3. **Antiques, defined as follows:**
    Antiques being, subject to and in accordance with regulations, articles of furniture, silver, glass or porcelain, whether hand-decorated or not, specified in the said regulations, which are shown to the satisfaction of Revenue to be more than 100 years old other than the goods described in Appendix III.

Appendix II

Definition of Precious Stones and Precious Metals (excluded from the margin scheme)

- **Precious Stones**
  These are diamonds, rubies, sapphires and emeralds, whether cut or uncut, when they are not mounted, set or strung.

- **Precious Metals**
  These are:-

  - silver (including silver plated with gold or platinum),
  - gold (including gold plated with platinum),
  - platinum, and
  - all items which contain any of these metals when the sale price does not exceed the open market price of the metal concerned.

Appendix III

Extended margin scheme

1. Application

The margin scheme can be applied by a dealer in respect of **all** of his or her sales of the following goods and the goods described in Appendix I (items 2 & 3) even when such goods would not normally be eligible for the margin scheme because of their source:

1. works of art, collectors items or antiques which she or he has imported from outside the EU,
2. works of art supplied to him/her by the creator or the creator's successors in title,
3. works of art supplied to him/her by an accountable person, other than a dealer, where the supply of such works of art by that taxable person is liable for VAT at the reduced rate.

All the above goods sold under the margin scheme are liable for VAT at the standard rate. However, see also the Rates Guide at Appendix IV which covers the circumstances under which a different rate could be applied on the acquisition of works of art by dealers or individuals.

2. Goods liable at the standard rate when sold under the margin scheme

2.1 Works of art

- a picture, collage or similar decorative plaque executed entirely by hand by an artist. (Excluded from this are plans and drawings for architectural, engineering etc. purposes; hand-decorated manufactured articles, and theatrical scenery, studio back cloths or the like of painted canvas).
- sculpture cast, the production of which is **limited** to eight copies, and supervised by the artist or his or her successors in title. (That limit may however be exceeded, on approval by Revenue, in the case of a statuary cast produced before 1 January, 1989.).
- a tapestry or wall textile made by hand from original designs provided by an artist, provided that there are no more than eight copies of each,
- individual pieces of ceramics executed entirely by an artist, and signed by the artist.
- enamels on copper, executed entirely by hand, limited to eight numbered copies bearing the signature of the artist or the studio. (Articles of jewellery, goldsmith's wares and silversmith's wares are excluded from this.).
- a photograph taken by an artist, printed by the artist or under the artist's supervision, signed and numbered and limited to thirty copies, all sizes and mounts included. (Photographic prints mounted or un-mounted but unframed which record particular persons, objects or events supplied under an agreement to photograph those persons, objects or events remain liable at the reduced rate).

2.2 Collectors' items

Every collectors' item being one or more of the following:

- postage or revenue stamps, postmarks, first-day covers, pre-stamped stationery and the like, franked, or if unfranked not being of legal tender and not being intended for use as legal tender, or
- collections and collectors' pieces of zoological, botanical, mineralogical, anatomical, historical, archaeological, palaeontological, ethnographic or numismatic interest.

2.3 Antiques

Every antique being one or more goods which are shown to the satisfaction of Revenue to be more than one hundred years old other than works of art and collectors items described above and the goods defined in Appendix I even if over one hundred years old. They can however be included in the margin scheme and the extended margin scheme.

3. Option by dealer

If a dealer opts to apply this extended margin scheme to the above goods, she or he must opt in for a period of at least two years.

4. How a dealer opts to apply

The dealer opts to apply the scheme simply by not claiming a VAT input credit on the purchase or importation of the goods in question. She or he is not required to notify a Revenue Officer, but she or he must keep adequate records.

5. How a dealer opts out

A dealer operating the extended margin scheme may at any time in respect of any individual supply, apply the normal VAT rules. If she or he does this, she or he cannot claim a VAT input credit on the purchase or importation of the goods in question until the taxable period in which she or he is accounting for the sale. This is because she or he will not know until the point of sale whether she or he is accounting for this transaction under the normal rules, or under the margin scheme. In this way, all stock-on-hand is treated the same way, as regards VAT input credit, until the point of sale.

Appendix IV

Rates Guide, i.e. rates of VAT applicable to the sale of Works of Art.

Works of art are divided into two groups. Those listed in Schedule 3 to the VAT Consolidation Act 2010 (paintings, drawings, engravings, sculptures) which are normally liable at the reduced rate, and those listed in Schedule 5 (other types of pictures done by hand, tapestries, ceramics, enamels and some photographs) which are normally liable at the standard rate but are liable at the reduced rate in **certain circumstances** (principally imports from outside the EU and a supply by the original artist). This is part of the rates strategy in the Council Directive 2006/112/EC designed to encourage the flow of works of art into the EU. The rates are listed hereunder:

- **Group A:** works of art as defined in Schedule 3 to the VAT Consolidated Act 2010 normally liable at the reduced rate (precise definition of these works of art is given at Appendix I)
- **Group B:** works of art defined in Schedule 5 to the VAT Consolidated Act 2010 liable at the reduced rate in certain circumstances instead of standard rate as heretofore (precise definition of these works of art is given at Appendix III).

The effect of the Directive is to allow these groups to be taxable at different rates of VAT, depending on the circumstances under which the goods in question are acquired by the dealer as follows:

Different rates of VAT applicable depending on the circumstances under which the goods in question are acquired		
Circumstances	**Group A**	**Group B**
Import from outside EU by art dealer:	reduced rate	reduced rate
Import from outside EU by taxable person:	reduced rate	reduced rate
Import from outside EU by an individual:	reduced rate	reduced rate
Normal supply by art dealer	reduced rate	standard rate
Normal supply by creator/successor	reduced rate	reduced rate

Normal supply by taxable person not art dealer:

Normal supply by taxable person not art dealer:-		
Circumstances	**Group A**	**Group B**
(a) if she or he imported, acquired from creator or got full deductibility	reduced rate	reduced rate
(b) otherwise (e.g. partial deductibility, or none at all because acquired under margin scheme)	reduced rate	standard rate
Margin scheme supply by art dealer	standard rate	standard rate
Auction by auctioneer	standard rate	standard rate
Intra-Community acquisition by art dealer	reduced rate	standard rate

Intra-Community acquisition by taxable person not a dealer:

Intra-Community acquisition by taxable person not a dealer:-		
Circumstances	**Group A**	**Group B**
(a) if she or he acquires it from a creator/successor in another Member State, or a person in another Member State who imported, acquired from creator or got full deductibility	reduced rate	reduced rate
(b) if she or he acquires it from another source (e.g. a dealer in another Member State)	reduced rate	standard rate

Examples of the above would be:

- **An individual** can import a tapestry (Group B) from outside the EU at the reduced rate but would be charged VAT at the standard rate on the supply of a tapestry by an Irish dealer.
- **A dealer** could import a tapestry (Group B) from outside the EU at the reduced rate , but would be liable at the standard rate on intra-Community acquisitions.

Appendix V

"**Means of transport**" means motorised land vehicles with an engine cylinder capacity exceeding 48 cubic centimetres or a power exceeding 7.2 kilowatts, vessels exceeding 7.5 metres in length and aircraft with a take–off weight exceeding 1,550 kilogrammes, which are intended for the transport of persons or goods, other than agricultural machinery (as defined below) and vessels and aircraft of a kind referred to in paragraph 4(2) of Part 1 of Schedule 2 to the VAT Consolidation Act 2010.

"**Agricultural machinery**" means machinery or equipment, other than a motor vehicle as defined above in "means of transport", which has been used by a flat-rate farmer for the purposes of agricultural production activities (as defined in Schedule 4 to the VAT Consolidation Act 2010) in circumstances where any tax charged on the supply of that machinery or equipment to that farmer would have been deductible by such farmer if that farmer had elected to be an accountable person at the time of that supply of the machinery or equipment to such farmer.