

## **Auctions and Value Added Tax**

### **Notes for Buyers - A Summary**

Items to be sold at auction within the United Kingdom (UK) and European Union (EU) can be offered under the Auctioneers' Margin Scheme or under normal Value Added Tax (VAT) rules.

VAT is potentially payable on the bid (hammer) price of the goods, on the auctioneer's commission in the form of a buyer's premium and on any charges relating to the goods (import, valuation, collection, storage, packaging, delivery, etc.).

For full details of the Auctioneers' Margin Scheme please refer to VAT notice 718. Normal VAT rules are detailed in VAT notice 700. Both documents can be obtained from Her Majesty's Revenue and Customs (HMRC) at [www.hmrc.gov.uk/vat](http://www.hmrc.gov.uk/vat)

### **VAT Code Definitions (Sales Tax) - A Summary**

Each lot has a VAT code letter which defines how the lot is to be treated for VAT. The meanings of these codes are shown in the table below:

#### **Auctioneers' Margin Scheme**

- M** Standard rate item. Lot not liable for VAT on bid (hammer) price. VAT on buyer's premium at 20% included within buyer's premium and not shown separately.
- N** Zero rate item. Lot liable for VAT on bid (hammer) price at 0%. Lot liable for VAT on buyer's premium at 0%.

#### **Lots Subject to Normal VAT Rules**

- V** Standard rate item. VAT at 20% added to bid (hammer) price. VAT on buyer's premium at 20% shown separately.
- I** Standard rate item. VAT at 20% *included* in bid (hammer) price. VAT included in bid price shown between ( ). VAT on buyer's premium at 20% shown separately.
- W** Reduced rate item. VAT at 5% added to bid (hammer) price. VAT on buyer's premium at 20% shown separately.
- J** Reduced rate item. VAT at 5% included in bid (hammer) price. VAT included in bid price shown between ( ). VAT on buyer's premium at 20% shown separately.
- Z** Zero rate item. Lot liable for VAT on bid (hammer) price at 0%. VAT on buyer's premium at 20% shown separately.
- E** Exempt item. Lot is exempt for VAT on bid (hammer) price. VAT on buyer's premium at 20% shown separately.

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### **Normal VAT Rules**

VAT accounting is mandatory for VAT registered businesses in the UK and EU. VAT (Sales Tax) is added to the price of the goods at either 20% or 5% according to the goods classification. VAT registered businesses can reclaim VAT paid by them on purchases. The difference between VAT collected on sales and VAT paid on purchases is sent to HMRC.

Most commercial auctioneers (i.e. those involved in the disposal of commercial assets be reason of business mergers, administrations, liquidations, disposals, etc.) sell under normal VAT rules. This is principally because the Auctioneers' Margin Scheme cannot be used where the goods have had VAT on their purchase reclaimed from HMRC - as will almost always be the case when auctioning goods previously bought by VAT registered businesses.

Lots subject to normal VAT rules are marked in the printed auction catalogue with a single asterisk character (\*) or a single dagger symbol (†) to indicate a VAT added rate of 20%.

Lots subject to normal VAT rules are marked in the printed auction catalogue with a single 'at' character (@) to indicate a VAT inclusive rate of 20%.

Lots subject to normal VAT rules are marked in the printed auction catalogue with a double asterisk character (\*\*) or a double dagger symbol (‡) to indicate a VAT added rate of 5%.

Lots subject to normal VAT rules are marked in the printed auction catalogue with double 'at' characters (@@) to indicate a VAT inclusive rate of 5%.

Lots subject to the 5% rate are often lots being sold under HMRC temporary importation rules where the import duty has been deferred until the point of sale and is to be paid by the buyer. However, some classes of goods do attract VAT at the reduced rate.

Please note that VAT on auctioneer's commission and charges is always at the 20% rate even if the good are subject to the 5% VAT rate.

A buyer's invoice will show the bid (hammer) price of the lots bought. VAT is added to the hammer price. The buyer must also pay the auctioneer's commission in the form of a buyer's premium, plus VAT on the buyer's premium at 20%. Any charges (e.g. delivery, packaging, etc.) will also be subject to VAT at 20%

Some auctioneers choose to sell VAT inclusive. This means that the bid (hammer) price achieved at auction already includes VAT at the appropriate rate. The true hammer price can be found by dividing the VAT inclusive price by either 1.2 or 1.05 as appropriate. VAT on hammer price, VAT on buyer's premium and VAT on charges will then all be based on the true hammer price. VAT inclusive lots will be marked as Inc or Nil in the on line catalogue.

Some classes of goods are either exempt or zero rated for VAT so there will be no VAT added to the hammer price for these goods.

Non UK or EU VAT registered buyers can have most classes of VAT refunded on their

purchases - please note that auctioneers are under no obligation to provide VAT refunds, although many will offer this service. HMRC are the ultimate refunding authority. VAT refunds are subject to provision of statutory export/import documentation. HMRC have decreed that VAT on buyer's premium is always payable whether the buyer is domiciled in the UK, EU or outside the EU or wherever the goods are to be sent. So auctioneers cannot refund VAT on buyer's premium if the goods are sold under normal VAT rules.

VAT is always calculated on a lot-by-lot basis. VAT totals on a buyer's invoice may show small rounding discrepancies. For example, if a buyer's premium was quoted at 17.5% inclusive of VAT, the actual buyer's premium rate would be 14.58333% plus VAT at 20%. Since currencies cannot have fractions of a penny or cents, rounding discrepancies will accumulate and cannot be avoided.

### **Auctioneers' Margin Scheme**

Most auctioneers specialising in fine art and chattels - where VAT on the goods was originally paid but not reclaimed - choose to sell under the Auctioneers' Margin Scheme. The scheme is detailed in VAT notice 718, principally for disposal of non-commercial second-hand items, but in summary:

VAT is not payable on the bid (hammer) price.

Buyer's premium and VAT on buyer's premium are combined and shown as one total - VAT on buyer's premium is not shown separately and cannot be reclaimed by UK or EU VAT registered businesses or individuals.

Charges and VAT on charges are shown separately. VAT on charges can be reclaimed by UK and EU VAT registered businesses or individuals.

If a VAT registered UK or EU buyer wishes to reclaim VAT on purchases they can ask the auctioneer for a VAT invoice. This takes the relevant lots out of the Auctioneers' Margin Scheme and treats them all under normal VAT rules. The buyer will need to pay VAT on the hammer price of the goods. Buyer's premium and VAT on buyer's premium will be shown separately and VAT on buyer's premium and charges can be reclaimed. A buyer cannot cherry pick which parts of the schemes they would want to utilise. For example, Auctioneers' Margin Scheme goods cannot have VAT on buyer's premium shown separately unless VAT on hammer price is also paid to the auctioneers.

Non UK or EU VAT registered buyers can have all classes of VAT refunded on their purchases - please note that auctioneers are under no obligation to provide VAT refunds, although many will offer this service. HMRC are the ultimate refunding authority. VAT refunds are subject to provision of statutory export/import documentation.

VAT is always calculated on a lot-by-lot basis. VAT totals on a buyer's invoice may show small rounding discrepancies. For example, if a buyer's premium was quoted at 17.5% inclusive of VAT, the actual buyer's premium rate would be 14.58333% plus VAT at 20%. Since currencies

cannot have fractions of a penny or cents, rounding discrepancies will accumulate and cannot be avoided.

**Disclaimer**

This note is an attempt to provide auction buyers with a summary of VAT law. The information is supplied in good faith but no warranties are given. Our advice is that buyers should raise queries with a local VAT office.

Effective from 1st January 2012