CHAPTER 30

RETAIL SCHEMES

30.1 Introduction

For the purposes of all illustrations and examples in this chapter we are assuming a rate of VAT of 17.5% throughout

Retailers are businesses which sell directly to the public. Such businesses do not have to be shops; mail order companies are examples of retailers who sell directly to the public. Retailers have specific problems that perhaps other VAT traders would not experience. This is because retailers sell such large quantities of goods. Hence, identifying each individual sale can be full of problems. If you imagine a large store, such as Marks & Spencer, having to separately identify each sale made, we would be looking at millions and millions of sales on an annual basis.

VATA 1994,Sch 11, Para 2(6)

SI 1995/2518 Regs. 66-75

Operating the normal rules of VAT would be a nightmare for such large retailers. Associated with this would be the problem of having to issue a VAT invoice for each transaction. Because of all these problems, retailers have always enjoyed a special treatment for VAT. The special treatment is reflected in various Retail Schemes that the VAT Authorities allow retailers to operate. These Schemes apply not only to very large retailers but also to all retailers, i.e. anyone who sells directly to the public.

VAT Notice 727 paras 3.4-3.13

30.2 Retail Schemes

At its very simplest, a Retail Scheme will take as its starting point the cash in the till, which perhaps has been adjusted for one or two items as per the specific Retail Scheme. This **cash** will be divided up into the different types of sales. For example, it will be **split between standard-rated and zero-rated sales** and maybe, in very extreme cases, **exempt sales** as well. The split is an apportionment which is fixed according to the Retail Scheme rules. Hence, it is only an approximation of the true sales that have been made but, nonetheless, it calculates the correct VAT for the period. This VAT is then entered onto the VAT return in the normal way.

The use of a Retail Scheme is wholly at HMRC's discretion. HMRC can refuse to allow the use of a Scheme if:

1 the use of the Scheme does **not give a just and reasonable result**;

2 if it is necessary to do so for **the protection of the revenue**; or

3 if it is reasonable to **expect the retailer to account for VAT in the normal way.**

If a business makes both retail and non-retail sales, then the **non-retail sales must be excluded from the Scheme** and dealt with separately. The **sales to registered businesses are also to be excluded**. However, occasional sales are allowed to be dealt with under the Scheme. An example of such an occasional sale might be a garage which sells petrol to many customers including some of those customers who may be VAT registered. All such sales would be allowed to be dealt with under a Retail Scheme.

30.3 Gross Takings

The key to all Retail Schemes is calculating a figure for **gross takings**. Gross takings, basically, is a measure of all supplies which the business has made. This figure is then split between zero-rated and standard-rated supplies and the VAT fraction is then applied to the standard-rated portion.

Daily gross takings would include:

- all **payments received** from cash customers which would include **cheques, credit and debit cards**;
- the full amount of **credit sales** made is also included;
- the **cash value of any payment in kind** for retail goods;
- the **face value of any vouchers**, or tokens, such as gift tokens, book vouchers accepted in the place of cash; and,
- any **other payments** that may have been made for retail sales.

Once an amount has been included in daily gross takings, only certain adjustments can reduce the figure.

The adjustments to daily gross takings that are allowed are as follows:

- **Exclude receipts for exempt supplies, non-retail sales, and sales to registered businesses** because these items are outside the Scheme.
- Also allowed is a **deduction for refunds to customers**. These will be refunds in respect of taxable supplies made at some earlier date.
- Also to be excluded are **receipts from credit sales**. This is because credit sales are included at the time of the sale and hence, when the cash is received it is ignored.
- The final exclusions involve **non-receipts**. Non-receipts are things such as illegible credit card vouchers, unsigned cheques, bad cheques and counterfeit notes.

One thing to note, however, is that the **theft of cash is not a permitted adjustment.** So, for example, if a member of staff steals from the till, or maybe the till itself is stolen, VAT must still be accounted for to HMRC. This is contrasted to when stock is stolen – shoplifting – because if there is no tax point, then there is no output tax to account for to HMRC.

30.4 Point of Sale Scheme

The Point of Sale Scheme is a simple scheme which can be operated in two circumstances. The first circumstance is where **all sales are made at a single positive rate of VAT**, in which case there would be no need for an apportionment because all sales are at the same rate of VAT or, in the second situation, if **electronic or similar tills are used which can analyse sales at the point of sale** into the different rates of VAT.

VAT Notice 727/3 Paras 3.2, 3.4, 4.2

This simple Point of Sale Scheme is really only a Retail Scheme rather than normal VAT accounting because the trader does not have to identify individual transactions. Output tax is based on a fraction of total takings. It may still be necessary to use Retail Scheme adjustments to arrive at gross takings but an apportionment between standard and zero-rated sales, for example, is not actually required.

30.5 Apportionment Scheme 1

There are two kinds of Apportionment Schemes, aptly named Apportionment Scheme 1 and Apportionment Scheme 2.

Apportionment Scheme 1 is the simplest Scheme. It requires an **estimated split of gross takings between different types of turnover** and it is available for retailers with **annual sales, which exclude VAT, of up to £1 million.** In each quarter, the purchases of goods for resale are expressed as a percentage; the percentage being cost of standard-rated goods purchased, including VAT, divided by cost of all goods purchased.

VAT Notice 727/4 Paras 3.3, 3.5, 3.6, 4.2, 4.3

This fraction is then applied to gross takings in order to calculate the value of standard-rated sales for the quarter.

$$\text{SR sales} = \text{Gross takings} \times \frac{\text{Cost of SR goods purchased including VAT}}{\text{Cost of all goods purchased}}$$

Calculations are made quarterly, with an annual adjustment being calculated at the end of year which is based on total figures for the year and compared to the four quarterly amounts previously calculated.

Illustration 1

In the quarter to 31 March a retailer:

- Bought SR goods for resale for £150,000 plus VAT.
- Bought ZR goods for resale of £100,000.
- Made supplies of £420,000 including VAT.

The fraction of supplies which are standard-rated is calculated as:

$$\frac{176{,}250}{276{,}250} \times £420{,}000 = £267{,}964$$

Output tax due here is 7/47 x £267,964 = £39,910.

£39,910 will be entered onto the VAT return for the quarter ended 31 March. Assuming this trader has a March VAT year end, an annual adjustment would also be made at this time, looking at a whole year's purchases and a whole year's sales.

The annual adjustment calculation, using a similar method, computes the VAT that is due to HMRC, which will then be compared with the output tax declared on the relevant four quarterly returns and any adjustment necessary will be called the annual adjustment.

30.6 Apportionment Scheme 2

Apportionment Scheme 2 is slightly more complicated than Scheme 1. The Scheme is available for use by retailers with **supplies not exceeding £130 million per annum.** The Scheme is **based on expected selling prices**, or ESP, which of course **include VAT, of goods acquired for resale**. So this time we are looking at expected selling prices of goods purchased rather than cost of goods purchased. The fraction that we use is ESP of standard-rated goods received in the last 12 months, divided by ESP of all goods received in the last 12 months.

VAT Notice 727/4 Paras 3.3, 3.5, 3.6, 5.2, 5.4

$$\text{Gross takings} \times \frac{\text{ESP of SR goods received in Last 12 months}}{\text{ESP of all goods received in last 12 months}} = \text{SR supplies}$$

This fraction is used to apportion gross takings when working out the amount of standard-rated supplies on which the retailer has to account for VAT to HMRC.

The fraction includes goods received in the last 12 months. This may seem odd but it is there to avoid distortions from short-term fluctuations and, because of this, **no annual adjustment is required** under Apportionment Scheme 2.

Do note that under Apportionment Scheme 2 the apportionment of gross takings involves a rolling calculation of the percentage which is always based on the last 12 months details.

Illustration 2

In the quarter ended 31 March a retailer:

- Bought SR goods for resale for £1m plus VAT.

  (ESP £2.75m including VAT)

- Bought ZR goods for resale for £750,000.

  (ESP £1.5m)

- Made supplies of £4m including VAT.

The ESP (including VAT) of goods purchased in the 12 months to 31 March was:

- SR goods £9m
- ZR goods £7m

£4m x	$\frac{9m}{16m}$	= £2,250,000
Quarterly Gross takings inc VAT	Last 12 months purchases inc VAT	Quarter's SR supplies inc VAT

For Apportionment Scheme 2, the apportionment of gross daily takings is based on purchases in the last 12 months at their estimated selling price. So, in the 12 months to 31 March, the estimated selling price of standard-rated purchases in the last 12 months was £9 million and the estimated selling price of total purchases in the last 12 months was £16 million. Thus the fraction £9 million over £16 million will be used to apportion this quarter's £4 million worth of gross takings.

To recap, it is a fraction based on the last 12 months purchases and their estimated selling price that is used to apportion the quarter's gross takings.

This calculation gives standard-rated supplies of £2$\frac{1}{4}$ million, i.e. the standard-rated supplies for the quarter ended March.

Apply the VAT fraction 7 over 47 to this, to find the VAT included in the figure which then is put onto the quarter's VAT return.

30.7 Direct Calculation Scheme 1

There are two Direct Calculation Schemes: Direct Calculation Scheme 1 and Scheme 2.

Direct Calculation Scheme 1 **allows for differences in mark-ups** but it is a fairly simplistic Scheme and it is only available where retailers have a **turnover not exceeding £1 million per year**.

VAT Notice 727/5 Paras 3.1, 3.6, 3.7, 4.2, 4.4

The Scheme involves using estimated selling prices again. The category of goods with the higher ESP is called the majority goods and the category of goods with the lower ESP is called the minority goods. The Scheme uses the ESP of purchases in the period, even though these goods may or may not be sold in the period. The ESP for minority goods bought in the period are either treated as the standard-rated part of gross takings where those minority goods are standard-rated, or are deducted from gross takings to give the standard-rated figure if those minority goods are zero-rated.

With the Direct Calculation Scheme 1, there is **no stock adjustment** and **no annual adjustment** required.

Illustration 3

JJ Limited provides the following information:

	ESP	
	SR purchases	ZR purchases
Quarter to 30 June	£67,200	£39,200

Gross takings for the quarter were £84,000.

ZR goods are the minority goods.

Output tax is calculated as:

£(84,000 – 39,200) x 7/47 = £6,672

For a Direct Calculation Scheme 1 type calculation, where the minority goods are zero-rated as in this case, then the estimated selling price of the minority goods purchased in the period are deducted from gross takings to give the standard-rated figure, i.e. the figure on which we calculate the output tax due.

Take zero-rated purchases, these are minority goods, estimated selling price of £39,200, and deduct that from the £84,000 gross takings for the quarter.

What is left is basically the standard-rated part of these gross takings. Because it is VAT inclusive, multiply by 7 over 47, to get £6,672 of output tax due for the quarter.

Example 1

JJ Ltd provides further information:

	ESP		
Quarter to	SR purchases	ZR purchases	Gross takings
	£	£	£
30 Sept	81,200	36,400	140,000
31 Dec	109,200	28,000	145,600
31 March	61,600	35,000	84,000

Calculate the output tax due for each quarter.

Finally, regarding Direct Calculation Scheme 1, in a period where stock is built up it would be possible for the ESP of standard-rated purchases to exceed the total gross takings. Because the approximation is supposed to work well in the long run over several quarters this is allowed by HMRC.

30.8 Direct Calculation Scheme 2

Direct Calculation Scheme 2 is available for all retailers with a **turnover not exceeding £130 million**. The Scheme is very similar to the Direct Calculation Scheme 1 and every quarter, the same calculations as DC Scheme 1 are performed. The difference arises with an **annual adjustment** which is required using the whole year's totals and is performed at the end of each year.

In addition, when working out the annual adjustment, there is a **stock adjustment** whereby you **add to goods received the opening stock** at the start of the year and **deduct from goods received the closing stock** at the year end.

Illustration 4

For an illustration of Direct Calculation Scheme 2 consider the previous illustration and the example attempted. Outlined below is the output tax calculated for the four quarters to 31 March, which totals £46,915 for the year. The standard-rated purchases and zero-rated purchases by reason of their estimated selling price are also outlined for each of those quarters.

Quarter to	Output tax	SR purchases	ESP ZR purchases
	£	£	£
June	6,672	67,200	39,200
Sept	15,430	81,200	36,400
Dec	17,515	109,200	28,000
Mar	7,298	61,600	35,000
Total	46,915	319,200	138,600

Gross takings for the year total £453,600.

The ESP of stock was:

	SR purchases	ZR purchases
	£	£
1 April (opening stock)	56,000	22,400
31 March (closing stock)	50,400	19,600

Start off by calculating the annual adjustment for standard-rated purchases remembering that the trader used estimated selling prices.

	SR purchases	ESP ZR purchases
	£	£
Total for year	319,200	138,600
Opening stock	56,000	22,400
Closing stock	(50,400)	(19,600)
	324,800	141,400

The total of standard-rated purchases for the year comes to £319,200. Opening stock of standard-rated purchases was £56,000. Add this on to the total for the year and then deduct closing stock of standard-rated purchases which is £50,400. That totals £324,800.

Do exactly the same calculation for zero-rated purchases to give a grand total of £141,400.

These are going to be the figures used for the annual adjustment.

Output VAT due:
£(453,600 – 141,400) x 7/47 = £46,498

Thus an annual adjustment of £417 i.e. £(46,498 – 46,915) is required.

To calculate the output tax due take gross takings for the year at £453,600, and from this deduct zero-rated purchases. Remember that zero-rated goods are the minority goods and these have to be taken from the total gross takings. Then multiply the difference by 7/47 and this gives a total of £46,498 of output VAT. This figure is effectively the true output VAT that should have been accounted for during the whole year.

Compare this with the actual output VAT, £46,915, accounted for when adding each of the quarter's totals. The difference between the two numbers gives a difference of £417.

The £417 is the annual adjustment for the year. The trader has therefore, overpaid output tax during the year of £417 and can thus claim this excess back from HMRC.

The annual adjustment is made on the fourth quarter's return, which is unusual because normally annual adjustments are made on the next VAT return.

30.9 Other Schemes

There are other retail schemes. Traders with a **turnover exceeding £130 million per annum** are required to **agree a bespoke scheme** with HMRC. A bespoke scheme effectively is a tailor-made scheme just for that retailer which has to be agreed between the retailer and HMRC. There are also some very special retail schemes for certain types of retailer. Examples of these are **florists, caterers and retail chemists**.

Example 2

Matching the appropriate scheme to the appropriate condition or conditions. Draw a line to connect the scheme to the correct condition.

Point of sale scheme	Single rate of VAT or electronic tills
Direct Calculation Scheme 1	Annual Sales not exceeding £130m
Direct Calculation Scheme 2	Annual Adjustment Required
Apportionment Scheme 2	
Apportionment Scheme 1	Annual Sales not exceeding £1m

Answer 1

Quarter to	£
30 Sept	15,430
31 Dec	17,515
31 Mar	7,298

Q/E 30 Sept
£(140,000 – 36,400) x 7/47 = £15,430

For Direct Calculation Scheme 1, take the gross takings of £140,000, deduct the estimated selling price of the zero-rated purchases, which is £36,400, and multiply the difference by 7 over 47. Thus £15,430 is the output tax due for the quarter ended September.

Q/E 31 Dec
£(145,600 – 28,000) x 7/47 = £17,515

With the Direct Calculation Scheme 1, take gross takings for the quarter of £145,600, deduct the estimated selling price of the zero-rated purchases, which is £28,000, and multiply the difference by 7 over 47. This gives £17,515 of output tax for the quarter ended December.

Q/E 31 Mar
£(84,000 – 35,000) x 7/47 = £7,298

With Direct Calculation Scheme 1 take the £84,000 of gross takings for the quarter, deduct from it the estimated selling price of zero-rated purchases for the quarter, which is £35,000, and then multiply by 7 over 47, which gives £7,298 of output tax for the quarter ended March.

Answer 2

- Point of sale scheme → Single rate of VAT or electronic tills
- Direct Calculation Scheme 1 → Annual Sales not exceeding £1m
- Direct Calculation Scheme 2 → Annual Sales not exceeding £130m
- Direct Calculation Scheme 2 → Annual Adjustment Required
- Apportionment Scheme 1 → Annual Adjustment Required
- Apportionment Scheme 1 → Annual Sales not exceeding £1m
- Apportionment Scheme 2 → Annual Sales not exceeding £130m