VAT: the second-hand motor vehicle payment scheme

Indirect Tax



19 April 2023

From 1 May 2023, the way that VAT is accounted for on second-hand motor vehicles meeting specific criteria changes. The new second-hand motor vehicle payment scheme replaces the VAT second-hand margin scheme for motor vehicles when they are bought in Great Britain and shipped to Northern Ireland for onward sale.

The new second-hand motor vehicle payment scheme ('SHMVPS') was due to be launched in October 2022. However, it was deferred in July of that year whilst the UK government continued to seek a negotiated settlement with the EU on the implementation of the Northern Ireland Protocol. For more background on the journey to the Windsor Framework (tinyurl.com/5bjd2hcb), see *Tax Adviser* article, 'The Windsor Framework: a new beginning for trade with Northern Ireland' (tinyurl.com/2wu5t7hw).

New VAT scheme

The new SHMVPS rules allow the business to recover a VAT-related payment on the purchase price of eligible vehicles in the following circumstances:

- The business is registered for VAT in the UK and has a business establishment in the UK.
- The eligible second-hand motor vehicle is purchased in Great Britain (eligibility purchase rules are the same as the second-hand margin scheme).
- The vehicle is moved to Northern Ireland with the intention to resell it in Northern Ireland or the EU.

The claim amount is calculated by applying the VAT fraction to the purchase price and when the vehicle is sold, VAT is due on the full selling price.

There is a similar new scheme for EU businesses, though details about how EU businesses can make claims, starting from August 2023, will be released in due course.

For UK businesses, there is a six-month transitional period applicable to vehicles in stock in Northern Ireland on 1 May 2023 that were previously moved there under the second-hand margin scheme. These vehicles remain eligible for the former VAT accounting treatment as long as they are sold by 31 October 2023. Otherwise if they are sold in Northern Ireland or the EU, VAT would be due on the full selling price plus no SHMVPS claim can be made. There is the option of shipping unsold vehicles back to Great Britain before 1 November so that they could be sold under the usual margin scheme rules.

The SHMVPS still requires the usual import VAT declaration for movements of goods from Great Britain to Northern Ireland, though this would normally be fully recoverable.

Full details of the SHMVPS are published in gov.uk guidance (tinyurl.com/358um4rf).

CIOT meeting

CIOT representatives met with HMRC in February to discuss the new rules and had an opportunity to clarify the following points.

- Adapted vehicles rules: SHMVPS vehicles can still interact with the zero-rating rules on second-hand adapted vehicles for people with disabilities (

tinyurl.com/24sz7bhe para 9), provided all of the usual qualifying criteria rules are met.

- VAT groups: The usual movement of own goods rules would still apply for VAT groups where group members move vehicles between Great Britain and Northern Ireland (tinyurl.com/3ckhmn76).
- Subsequent movements of vehicles from Northern Ireland back to Great Britain: If a business from Great Britain purchases a SHMVPS vehicle from a Northern Irish seller, it will not be eligible for the second-hand margin scheme. The Northern Irish seller would charge VAT on the full selling price, which the British business should be able to claim, then the British business would charge VAT on the full selling price to its own customer.

We anticipate that these points will be added to guidance in due course so that taxpayers have a GOV.UK source upon which to rely. However, if you have any feedback about the new VAT scheme or other points of difficulty, do let us know at technical@ciot.org.uk.

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