VAT treatment of new and used caravan sales

TAXATION

Lyndsey Bennett and Olivia Parry of PwC explain the VAT treatment for new and used caravan sales

VAT on caravan sales

The VAT treatment in relation to the sale of new and used caravans can be a complicated matter as there are three different VAT rates – standard (20%), reduced (5%) and zero (0%) – which could apply depending on the caravan's specifications.

To further complicate matters, removable contents supplied with a caravan are always standard rated (irrespective of the VAT treatment of the caravan). This is unless those contents are of a kind that would ordinarily be incorporated by builders as fixtures in new dwellings, then these would follow the same liability as the caravan.

In practice this means that the sale of a caravan is likely to attract two different rates of VAT: the VAT due on the caravan element (20%, 5% or 0%) and the standard rated (20%) removable contents element.

The following provides a brief overview of the current rules that businesses should be aware of when selling a new or used caravan to ensure that the correct VAT treatment is applied.

VAT on the sale of new caravans

Where a park is selling a new caravan it is necessary to establish the appropriate rate of VAT that should be charged on the sale. This is determined by reference to the size of the caravan and its compliance with the BS 3632:2005 or BS 3632:2015 (and in the future BS 3632:2022).

VAT at the standard rate (20%) will apply to the sale where a caravan does not exceed the size requirements (7m long x 2.55m wide). Essentially, applying these sizing requirements ensures that the sale of touring caravans are taxed at the standard rate. Hence if a caravan that does not exceed the size requirements is sold for £25,000 (including VAT), the supplier will be liable to pay HMRC £4,166.66 in output VAT, equating to 1/6 of the total sale price.

If the caravan meets the size requirements, the next step is to consider whether the caravan complies with BS 3632:2005 or BS 3632:2015 (and in future ***BS 3632:2022***) to establish if the sale is zero or reduced rated.

- If the caravan exceeds the size requirements (7m long x 2.55m wide) and meets BS 3632:2005 or BS 3632:2015, then VAT can be accounted for at the zero rate (0%) on the caravan element of the selling price.

- If the caravan exceeds the size requirements but has not been manufactured to BS 3632:2005 or BS 3632:2015, then VAT must be accounted for at the reduced rate (5%) on the caravan element of the selling price.

The removable contents element of the sale will be subject to VAT at the standard rate irrespective of the VAT treatment of the caravan element.

VAT on the sale of second-hand caravans

The VAT liability of the sale of a second-hand caravan varies according to its specification and depending on whether or not the caravan was first occupied prior to 6 April 2013:

- caravans that do not exceed the size requirements (either 7m long or 2.55m wide) will be subject to VAT at the standard rate
- caravans that exceed the size requirements (either 7m long or 2.55m wide) but are not manufactured to BS 3632:2005 or BS 3632:2015 will be subject to VAT at the reduced rate
- caravans that exceed the size requirements (either 7m long or 2.55m wide) and meet BS 3632:2005 or BS 3632:2015 will qualify for VAT at the zero rate.

Caravans first occupied before 6 April 2013 will continue to qualify for zero-rating for the life of the unit under the old rules providing the following three conditions are met:

- the caravan exceeds the size requirements (7m long x 2.55m wide)
- was occupied prior to 6 April 2013
- meets BS 3632:2005 or an earlier version. ➤

The British manufacturing standard BS 3632:2015 is currently under revision. The publication of the new standard – BS 3632:2022 – is set for September 2022 and once timescales have been finalised, a decision will be made to withdraw the 2015 version. It is envisaged that the Government will lay a Treasury Order to update the law and protect the VAT zero rate when caravans manufactured to BS 3632:2005, BS 3632:2015 or BS 3632:2022 are sold. Members will be kept updated on any developments regarding this matter.

Determining first occupancy before 6 April 2013

HMRC's guidance states that evidence must be obtained to confirm that the caravan was occupied prior to 6 April 2013. Indicators of occupation includes one or more of the following:

- a pitch fee agreement or evidence of payment of pitch fees
- rental agreements – for example, where a caravan has been let for residential purposes or used as a holiday accommodation
- payment of utility bills – for example gas, electricity and water
- registration for and/or payment of council tax
- the date the caravan was manufactured.

HMRC do not consider the following as occupancy:

- use of the caravan as a sales demonstrator
- use of the caravan as a sales office
- free use by members of staff or occupation that is not evidenced by a licence agreement, invoice for the sale of a holiday or similar.

The removable contents element of the sale will be subject to VAT at the standard rate irrespective of the VAT treatment of the caravan element.

Second-hand margin scheme

The second-hand margin scheme may reduce VAT due on the sale of some qualifying second-hand caravans. When using the scheme, VAT is only due on the difference ('the margin') between the purchase price and the selling price.

Where the second-hand margin scheme is applied, if the selling price is equal to or less than the purchase price no VAT is due on the sale.

There are strict conditions that must be met to use the scheme. HMRC's VAT Notice 718 'The margin and global accounting scheme' and previous Journal articles offer guidance[1]. An overview of the conditions for using the scheme are set out below.

The caravan must be eligible for the scheme

- The caravan must be classed as 'second-hand'. HMRC recognise and accept that in this context 'second-hand' has its ordinary meaning.

The caravan must have been acquired under the eligible circumstances

- The caravan must have been purchased from a private individual, or a business that is not registered for VAT, or
- if the caravan was purchased from a VAT-registered business, it must be purchased under the margin scheme.

The margin must be calculated in line with the rules set out by the scheme

- Specific rules determine how the buying and selling price and the margin under the scheme are calculated – however this will not be the same as the profit margin.
- The buying and selling price will include everything paid for or received for the caravan. This will include the commission, transport and insurance costs. Although, it is worth noting that optional extras will not form part of the sale or the purchase price for the purposes of the scheme.

Strict adherence to the record-keeping and invoicing rules of the scheme

- Additional record-keeping requirements apply to stock books and invoices.

Businesses will be required to produce the purchase invoice, in addition to the sales invoice under circumstances where the caravan is purchased from a private individual or a business not registered for VAT.

If businesses receive a purchase invoice which shows a separate VAT amount, then the caravan cannot be sold under the scheme and VAT will be due on the sale as normal.

VAT and removable contents

When removable contents are supplied with the sale of a zero or reduced rated caravan, they are liable to VAT at the standard rate. That is unless those contents are of a type that would ordinarily be incorporated by builders as fixtures in new dwellings. For example, fixed partitions, water heaters, sinks, toilets and wash facilities.

HMRC's VAT Notice 701/20 'Caravans and houseboats' sets out methods that can be used to arrive at the VAT due on removable contents in new and used caravans. Businesses are not required to use these methods and are permitted to use different methods to calculate the VAT due, provided they produce a fair and reasonable result. Section 31 of HMRC's VAT Notice 700 'The VAT guide' sets out two methods for apportionment of output tax, one based on cost and the other on market value.

It states in VAT Notice 701/20 that if methods other than those set out in the Notice are used, they will be subject to inspection by HMRC. Therefore, to reduce the risk of HMRC objecting to the use of any chosen methods, we recommend seeking professional advice and considering seeking written approval from HMRC before using them.

If HMRC were to review a method that has been implemented and they disagree that it produces a fair and reasonable result, there is a risk of being assessed for under-declared VAT. HMRC can go back four years to assess for under-declared VAT and could also apply interest and financial penalties, if they conclude the business failed to take reasonable care when putting the method in place.

Regardless of whichever methods businesses choose to use, they must be applied consistently across all supplies. Alternating between methods when calculating VAT liability is not permitted.

Summary

The above provides a high-level overview of the rules that apply when determining the VAT treatment of the sale of a caravan and how to calculate the amount of VAT due.

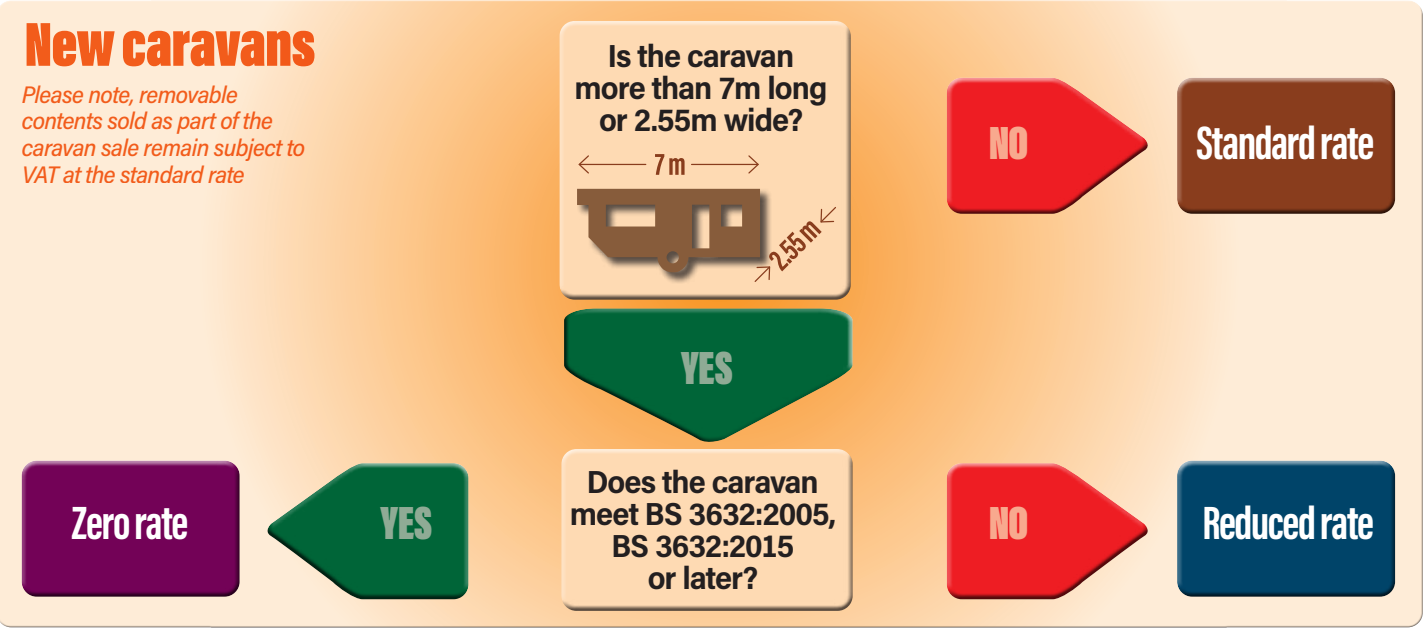
The flow charts and example calculations which follow provide illustrations of how VAT on the sale of caravans with their contents can be determined. The examples are based on HMRC's published guidance.

The method used for calculation must be appropriate for the business and it is recommended that businesses seeking to operate a method other than those set out in HMRC's published guidance seek approval in writing from HMRC that the method proposed produces a fair and reasonable result, to reduce the risk of a challenge from HMRC.

If HMRC reviews a method that has been implemented and concludes it is not appropriate, they will assess any VAT under declared, plus interest and will consider whether a financial penalty is appropriate.

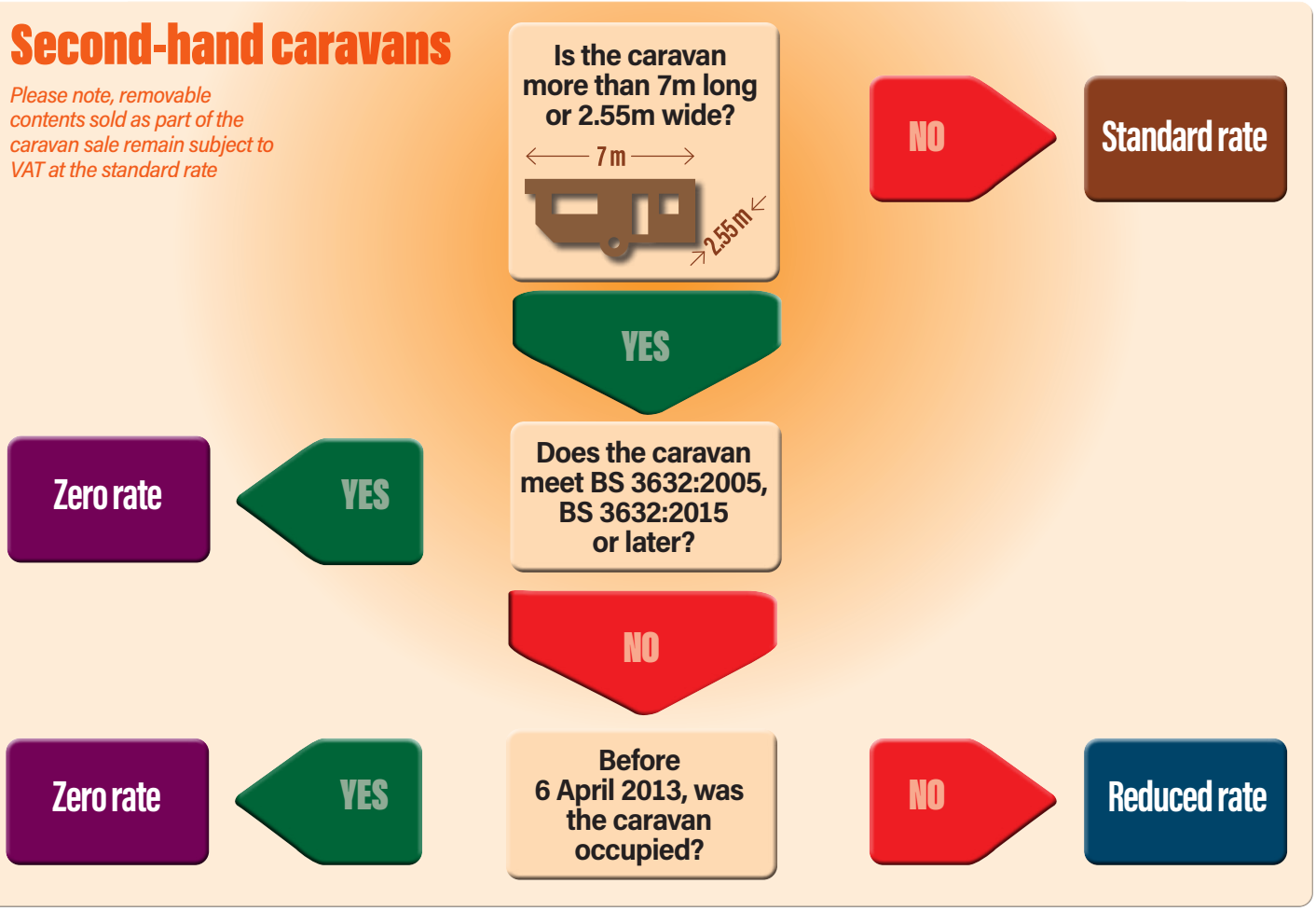
New caravans

Please note, removable contents sold as part of the caravan sale remain subject to VAT at the standard rate



Second-hand caravans

Please note, removable contents sold as part of the caravan sale remain subject to VAT at the standard rate



Examples

The following examples illustrate how the amount of VAT due on sales of caravans and their contents might be calculated. These are based on HMRC's guidance and are for illustrative purposes only, as each business should undertake their own calculations using methods that are appropriate for their circumstances and that produce fair and reasonable results.

Sale of new caravans exceeding the size requirements

1. Sale of a new caravan conforming to BS 3632:2015

The caravan element will qualify for zero-rating and businesses can calculate the standard rated VAT due on removable contents using the following method:

Caravan is purchased from the manufacturer.

Cost

Cost of caravan	£19,250.00
Cost of removable contents	£750.00
Plus VAT on contents	£150.00
Total	**£20,150.00**

Sale price is £30,000 including VAT

VAT due

$$\left(\text{Sale price} \times \frac{\text{VAT on purchase}}{\text{Total cost}}\right)$$

Total VAT due =

$$£30{,}000 \times \frac{£150.00}{£20{,}150.00} = £223.32$$

2. Sale of a new caravan not conforming to BS 3632:2015

The method to calculate VAT due on caravans not conforming to BS 3632:2015 is slightly more complex as the caravan element will qualify for the reduced rate of 5% and the removable contents will remain standard rated. Therefore two separate calculations are required.

Caravan is purchased from the manufacturer.

Cost

Cost of caravan	£19,000.00
Cost of removable contents	£750.00
Plus VAT on caravan	£950.00
Plus VAT on contents	£150.00
Total cost	**£20,850.00**

Sale price is £30,000 including VAT

VAT due

Removable contents

$$£30{,}000.00 \times \frac{£150.00}{£20{,}850.00} = £215.83$$

Caravan

$$£30{,}000.00 \times \frac{£950.00}{£20{,}850.00} = £1{,}366.91$$

Total VAT due **£1,582.74**

Sale of second-hand caravans exceeding the size requirements

1. Sale of a second-hand caravan conforming to BS 3632:2005 or an earlier version and occupied prior to 6 April 2013

Used caravans sold that conform to BS 3632:2005 or an earlier version and that were occupied before 6 April 2013 will qualify for zero-rating. VAT on the removable contents will be calculated as follows:

Assume using standard apportionment of values (i.e. value of removable contents = 10% of net sale price of caravan, referred to below as the 'standard rated percentage').

Sale price is £10,200 including VAT

VAT due

$$\text{VAT inclusive selling price} \times \frac{\text{VAT rate x standard rated percentage}}{100 + (\text{tax rate x standard rated percentage})}$$

With the standard rate of VAT at 20% this is:

$$\frac{20 \times 10\%}{100 + (20 \times 10\%)} = \frac{2}{102} = \frac{1}{51}$$

Total VAT due = £10,200 x 1/51 = £200.00

2. Sale of a used caravan not conforming to BS 3632:2005 or an earlier version, sold under the terms of the second-hand margin scheme

The caravan would qualify for reduced-rating and the removable contents would remain standard rated. If it is assumed that 10% of the margin relates to removable contents, the VAT would be calculated as set out below.

Purchase price	**£20,000.00**
Selling price	**£25,000.00**
Margin	**£5,000.00**
VAT due	
VAT on caravan £5,000 x 90% x 1/21	**£214.29**
VAT on contents £5,000 x 10% x 1/6	**£83.33**
Total VAT due	**£297.62**

Further information

[1] BH&HPA Journal, 191-2018.5, 'VAT margin scheme': **https://tinyurl.com/ncwf93y7**

Gov.uk, VAT Notice 701/20, 'Caravans and Houseboats': **https://tinyurl.com/7f9ztczy**

Gov.uk, VAT Notice 700, 'The VAT guide': **https://tinyurl.com/xe872tv5**

Gov.uk, VAT Notice 718, 'The Margin Scheme on second-hand cars and other vehicles': **https://tinyurl.com/nvwzrvwr**
- Section 5.1 – Specific information which must be included on invoices issued under the Scheme
- Section 5.2 – Stock book requirements
- Section 6.1 – Example of a stock book.