

VAT Margin Scheme for Second-hand Cars

This document explains the steps, which need to be taken in order to handle purchases and sales of the second-hand vehicles under the new VAT Margin Scheme.

The following aspects are covered in the document:

How to import the required application objects

Creating the proper VAT settings

Using margin scheme

a. When purchasing straight.

b. When taking a trade-in.

Notes on Transitional Agreement.

Importing Objects

Before the Margin Scheme VAT can be used in the system, it might be necessary to apply relevant changes to some application objects. This is done by importing the corresponding *.fob file into the database. If requested to do so, import the objects as follows:

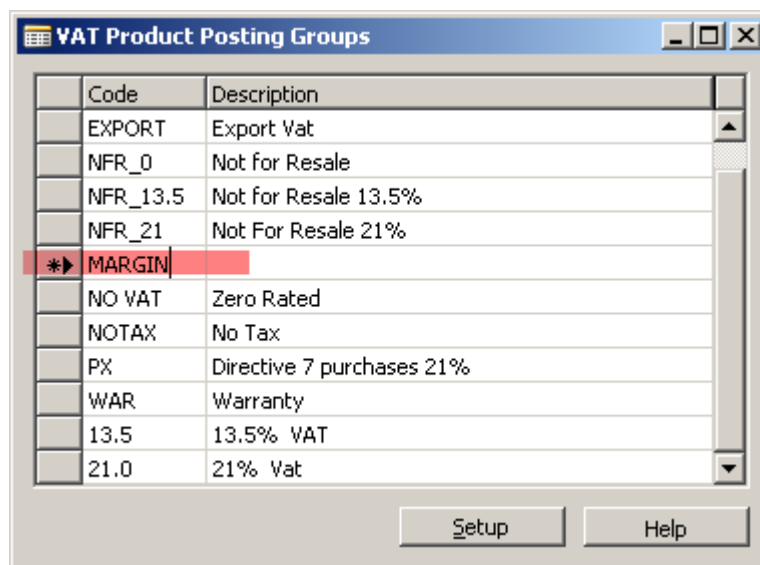
- 1) Save the *.fob file on your computer's Desktop.
- 2) Go to the DMS system and start Object Designer (press Shift + F12)
- 3) Click File, Import. In the Import Objects window, make sure that "Files of type" field contains "Navision Object Files".
- 4) Locate the file saved at step 1 and click Open.
- 5) Click YES to import the objects (or OK, if offered to open the Import Worksheet; when in the Import Worksheet, click "Replace All" and then OK).
- 6) When import finishes, click OK.
- 7) Close Object Designer.

Setting It up

There are four steps to be performed to create the required setup. These steps need to be performed only once, before buying a vehicle under Margin Scheme for the first time.

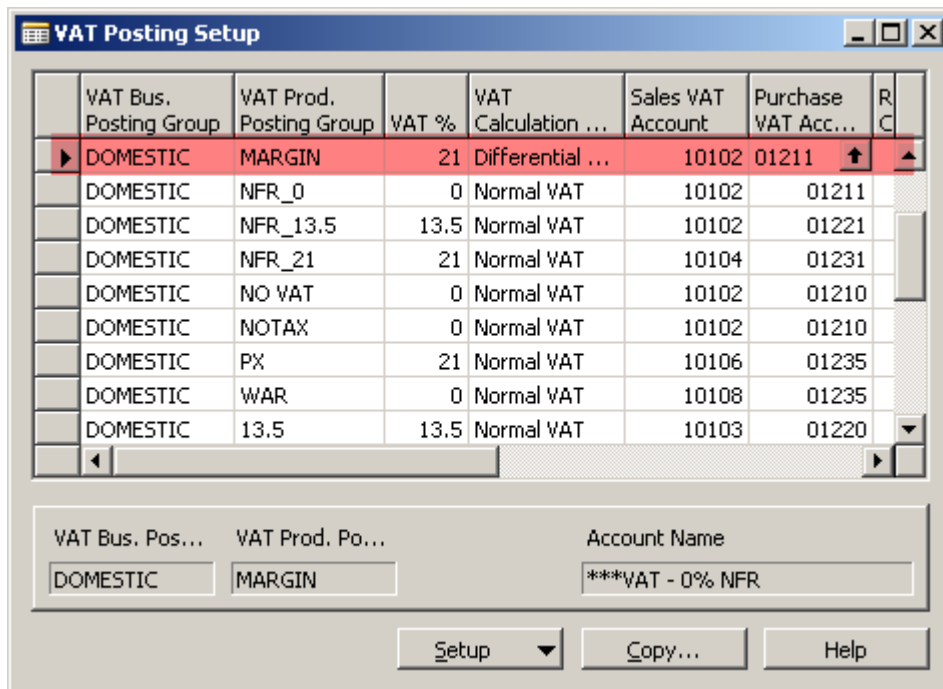
Step 1: Create a new "Vat Product Posting Group" called MARGIN. For that:

- 1) Go to General Ledger, Setup, VAT Posting Groups, Product Posting Groups.
- 2) Press F3 and type MARGIN into the Code field; enter some description if desired.



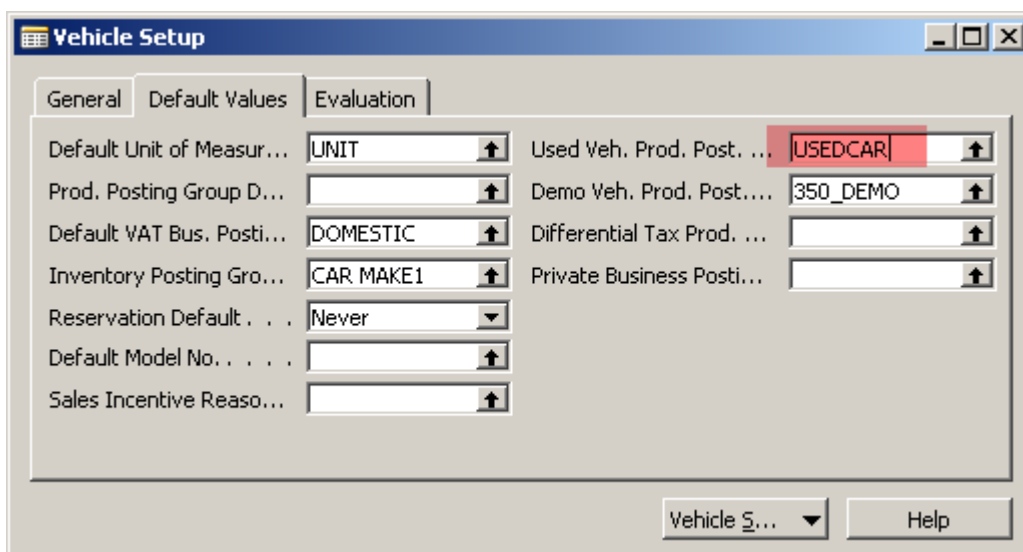
Step 2: Create a new record in the "VAT Posting Setup" table:

- 1) Click General Ledger, Setup, VAT Posting Groups, VAT Posting Setup.
- 2) Press F3 to create a new record and fill in the following fields:
 - a. "VAT Bus. Posting Group": type DOMESTIC;
 - b. "VAT Prod. Posting Group": type MARGIN;
 - c. "VAT%": enter 21;
 - d. "Sales VAT Account": enter the account to which you want the program to post sales VAT for Margin Scheme; you could use one of the existing VAT accounts or create a new nominal, if needed;
 - e. "Purchase VAT Account": enter the account to which you want the program to post purchases VAT for Margin Scheme; note that this field must be filled in even though Margin Scheme purchases wouldn't produce any postings in that account;
 - f. "Diff. Taxation VAT Prod Posti": type MARGIN (not included into screenshot below, but still needs to be filled in).



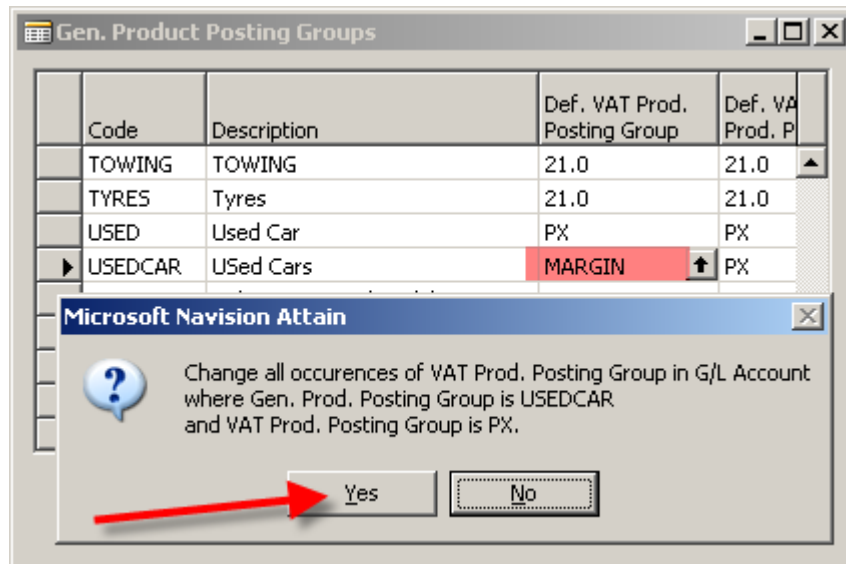
Step 3: Find out the name of the default posting group for used vehicles:

- 1) Go to Vehicles, Setup, Vehicles Setup;
- 2) Click onto the "Default Values" tab and note the value in the "Used Veh. Prod. Post. Group" field.



Step 4: Amend the default VAT Product Posting Group for used vehicles:

- 1) Click General Ledger, Setup, General Posting Groups, Product Posting Groups;
- 2) Locate the posting group noted at the previous step (in our example, USED CAR).
- 3) Change the value in "Def. VAT Prod. Posting Group" to MARGIN. Once the value in the field is updated, the program will offer three confirmation messages concerning changes to the existing items where the selected posting group is entered: click Yes in each of the confirmation messages.

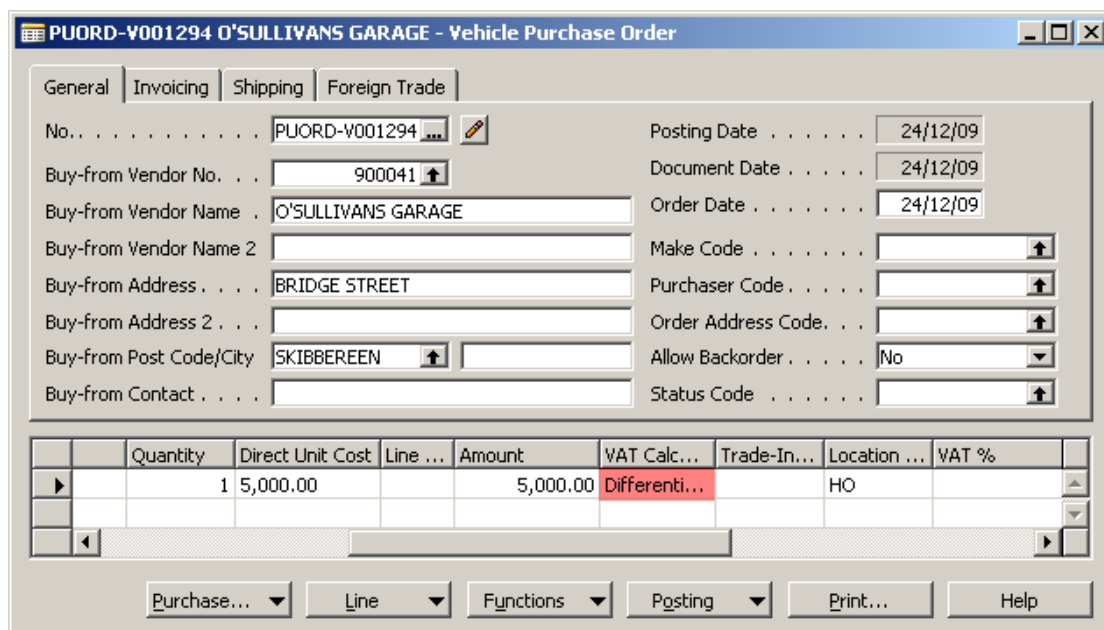


Once all of the above steps are completed, the system is ready to post purchases and sales documents under the new VAT Margin Scheme.

Using the Scheme

There are two scenarios when the new scheme can be utilised: when buying a second-hand car straight and when taking a used car as a trade-in.

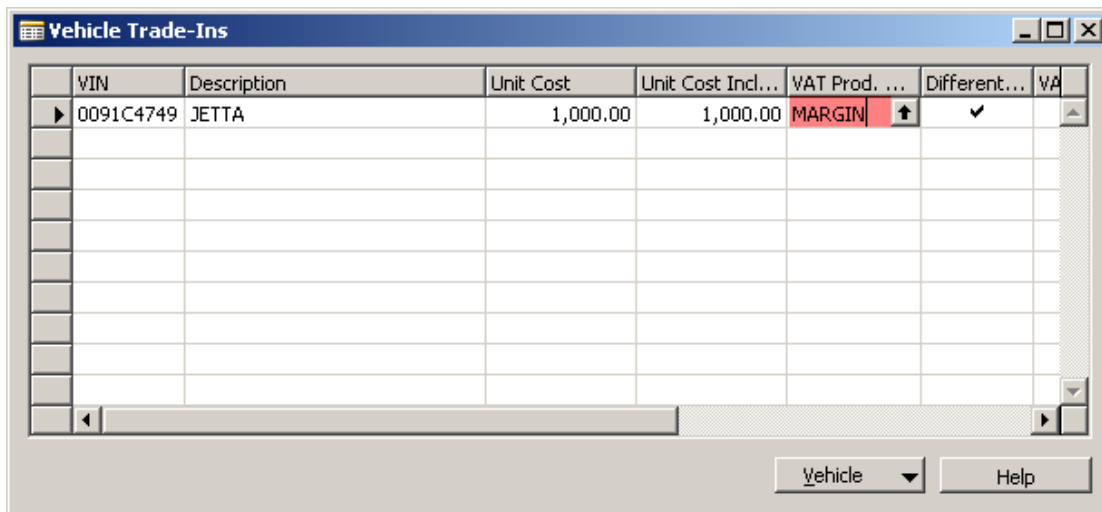
In buying a second-hand car straight, no additional steps are required compared to the previous, non-margin purchases. Once the new Vehicle Purchase Order is created, enter the VIN number into the first line of the document and check the value in the VAT Calculation Type field: it should read "Differential Tax". That means, the vehicle will be purchased under the Margin Scheme and no VAT will be calculated on the purchase.



If though an alternative VAT calculation is required, the user still can adjust it by changing the value in the "VAT Prod. Posting Group" field accordingly.

When a second-hand car is to be acquired as part of a trade-in deal, it is necessary to check the value in the "VAT Prod. Posting Group" field on the "Sales Trade-in Line" before proceeding with the purchase. For the Margin Scheme VAT to be applied to the deal, follow these steps when attaching a trade-in to the document:

- 1) In Vehicle Sales Order, click onto the line where the vehicle to be sold is entered;
- 2) Click Line, Trade-Ins;
- 3) In the Vehicle Trade-Ins window, enter the VIN of the vehicle to be taken as a trade-in;
- 4) In the Unit Cost field, enter the amount offered to the customer;
- 5) In the VAT Prod. Posting Group field, select MARGIN; if a warning message is displayed ("The VAT product posting group deviates from..."), just click OK to continue.



From here, proceed with the deal as usual: first, create and process the trade-in purchase invoice, and then finalise the deal by posting the sales invoice.

Transitional Agreement

To account for the fact that dealers will no longer be able to reclaim VAT on acquisitions of second-hand vehicles, a transitional agreement has been introduced. To support the transitional agreement, a special report will be offered to all dealers early next year, and the appropriate notice will be circulated.