A PRACTICAL GUIDE

Margin schemes without the spreadsheet

How motor traders, antique dealers, art galleries, and other second-hand retailers can handle VAT margin schemes alongside modern cloud accounting.

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Five pages. Ten minutes to read.

Margin schemes — the industry that nobody built for

If you sell second-hand goods in the UK — used cars, antiques, art, vintage design, collectables, charity-shop stock — the VAT margin scheme is probably how you account for VAT. You charge VAT on the difference between what you bought the item for and what you sold it for, not the full selling price. It's a sensible regime that's been around since 1973.

And it's the regime that no major cloud accounting platform supports natively.

The size of the gap

From a practitioner posting on Xero's own community board:

> "The second-hand goods market generates £2bn a year in the UK. There are some 3,724 businesses employing 27,183 people. Why does Xero not think integrating the margin scheme for second-hand goods a viable development in its software? This is used in the whole of the antiques trade, art galleries, art dealers, vintage design, vintage clothes, charity shops, collectables as well as used cars. Massive gap in the market for this function. There is a whole industry not accounted for."

Practitioners on AccountingWEB are equally direct: "Kashflow, QuickBooks and Xero have all just told me they do not support it and have no plans too." And from a thread that surfaces every time someone searches for VAT margin scheme accounting software: "You will find that none of the big software can cope with VAT margin schemes."

Who's affected

Motor trade	Second-hand car dealers, motorcycle dealers, caravan and trailer dealers — the largest single segment by transaction volume
Antiques & art	Antique dealers, art galleries, art dealers, vintage design retailers — high-value individual items, stock book required
Collectables	Vintage clothes, vinyl records, books, watches, jewellery — typically using the global accounting variant for high-volume low-value sales
Charity shops	Donated goods sold under margin scheme rules; high volume, low value, global accounting common
Auctioneers	Margin scheme for items sold on behalf of private individuals; complex per-item accounting
Mixed motor traders	Operations combining margin-scheme cars with new cars (under standard VAT) and finance products

The standard workaround and why it breaks

If you're already on Xero, QBO, Sage, or FreeAgent and dealing with margin scheme stock, you've probably been told by your accountant to do this:

Set up custom tax rates so that margin scheme sales and purchases code through to specific GL accounts. Record sales as gross amounts with no VAT shown on the invoice (the margin scheme forbids showing VAT on the customer invoice anyway). Maintain a stock book separately, in Excel or in a trade-specific add-on like Dragon2000, MotorDesk, or Vehicle Trader. At quarter-end, calculate VAT on the margin per item (or per pool for global accounting), post a manual journal moving the VAT from sales to the VAT control account, and submit the return.

Where it breaks #1: part-exchange transactions

Part-exchange is two separate transactions in legal terms: a purchase from the customer, then a sale to the customer. From an AccountingWEB practitioner explanation:

> "A part-ex is two distinct transactions. You buy the car off the customer for £1k (purchase invoice required from you on behalf of part-ex seller) and then you sell them a different car for £3k. You are not discounting anything, you and the customer may use language to call it that but legally the customer sells car A to you and you sell car B to them."

Cloud accounting platforms treat part-ex as a single net transaction by default. Getting it to record properly requires splitting the entry into two, with the part-exchange value posting as a credit note or a separate purchase. Practitioners report multi-step workarounds where a single £10,000 sale becomes a £10,000 invoice, a £3,000 part-exchange credit, a stock-book entry for the new acquisition, and a quarterly journal for the marginal VAT — all for one transaction the dealer thinks of as 'sold a car'.

Where it breaks #2: stock book reconciliation

HMRC requires a stock book showing every margin scheme item. From Tax Adviser magazine: "If HMRC consider that records are inadequate and that tax has been underpaid, they have the power to assess output tax based on selling prices rather than profit margins."

That's the tail risk that keeps margin scheme dealers awake at night. Lose the stock book, lose the documentation linking purchase to sale, lose the evidence that VAT was correctly calculated on margin — and HMRC can assess output VAT on the full selling price. For a dealer with a £50,000 car, that's £8,333 of VAT vs £166 if margin was 1%. The arithmetic of the consequence is brutal.

Where it breaks #3: the global accounting variant

For high-volume low-value traders — charity shops, vintage retailers, eBay sellers — the global accounting scheme allows pooled accounting rather than per-item. VAT is calculated on total margin (period sales minus period purchases) rather than item by item. The £500 cap per item applies. Negative margins in a period roll forward.

None of the big four cloud platforms automate this either. It's another spreadsheet, another quarterly journal, another set of working papers HMRC may ask to see.

How OneSixth handles margin schemes

OneSixth was originally built for the VAT margin scheme. The product has since expanded to cover partial exemption and TOMS, but margin schemes remain a core capability — with specific workflow support for the patterns that break down on the standard cloud platforms.

Built-in support across the full margin scheme family

Motor trade	Per-item stock book maintained in OneSixth, linked to the Xero/QBO/Sage/FreeAgent invoice for each sale. DVLA vehicle lookup integration so VRMs auto-populate model, year, and engine details.
Second-hand goods	Per-item margin tracking for antiques, art, collectables. On the roadmap: photo and provenance attachments per stock item.
Global accounting	Pooled margin calculation with negative-margin carry-forward handled automatically. The £500 per-item threshold is flagged for review at item entry; on the roadmap: automatic enforcement that routes over-cap items to the standard margin scheme.
Horses & ponies	Specialist support for the equine trade margin scheme — an area where there's almost no software support anywhere.
Part-exchange handling	The vehicle entry flow prompts for the correct full-price treatment so part-exchanges are recorded as HMRC sees them — a purchase from the customer plus a separate sale. On the roadmap: fully automated two-leg journal posting from a single dealer-facing entry.
Stock book HMRC-ready	Full stock book with all required HMRC fields per VAT Notice 718. Exportable as a working paper at any time, signed off as at submission.
Mixed-scheme businesses	Operations with new vehicles (standard VAT), used vehicles (margin scheme), and finance products (outside scope) tracked side by side, with each transaction routed to its correct treatment automatically.

What this means for the dealer

The dealer keeps using their existing trade software (CarVue, Dragon2000, MotorDesk, ArtScene, etc.) where it already works. OneSixth handles the specialist VAT layer alongside it, with results posted back to the cloud ledger as proper journals. The dealer's accountant gets a clean VAT return with attached working papers and a stock book that survives HMRC scrutiny. Nobody has to rebuild their workflow from scratch.

Where each item above stands today — shipped, in progress, or planned — lives at onesixth.app/roadmap.

If you want to take a closer look

OneSixth is built by Option to VAT Ltd, a UK company focused on VAT specialist tooling for professional services firms and finance teams. We're currently working with a small number of early-access partners across accountancy practice and in-house finance, and we're actively looking for more.

Three ways to engage

Book a 20-minute call. The fastest way to see whether OneSixth fits your workflow. We'll walk through the calculation engine on a real Xero or QBO sandbox and you'll be able to see exactly how the audit trail looks.

Try the early-access programme. Connect a single client organisation, run one period's calculation, see the journal entries push back to your ledger. No commitment to scale up.

Stay on the changelog. If now isn't the right time, the public changelog at onesixth.app shows what we're building and when. Sign up to get product updates by email.

> **The shorter version of this guide:** margin schemes have been part of UK VAT since 1973 and the major cloud accounting platforms still don't support them. Practitioners across the motor trade, antiques, art, and charity-shop sectors have been bridging the gap with spreadsheets and stock books for years. OneSixth was built to handle exactly this gap — with proper part-exchange handling, a stock book that survives HMRC scrutiny, and journals that post back to your existing cloud ledger.

Get in touch

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