HMRC - VATSC70600 - Returned Goods

This guidance covers the VAT treatment of goods returned to the supplier following an original supply by that supplier to the person returning the goods. This does not affect goods on sale or return or on approval terms until they are adopted by the customer (VATTOS9550 gives further details on this).

In 2016 a major UK retailer sought to treat goods returned to the shop as a cancellation of the original supply which had implications for money retained where a full refund was not given.

We consider that once a supply of goods has been made for VAT purposes it cannot be cancelled (See guidance at VATSC04650). Thus the original supply remains and a subsequent return and refund results in a reduction in the consideration (including to £0) for that original supply.

The following expands earlier guidance to explain this in detail.

Invoiced sales

Guidance on the reduction of consideration process for invoiced sales can be found in VATREC13000.

Retail sales

There are a number of scenarios where retailers will accept goods back from customers and refund all or part of the original consideration.

Goods returned under statutory rights.

Statutory rights means legal rights to return goods under The Consumer Rights Act 2015, The Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 or legislation having similar effect.

A customer will be refunded in full and in the same form as the original consideration (cash or equivalent). Consumer law does not require the customer to show the sales receipt as such on the return of faulty goods but generally some sort of proof of purchase is required.

While it is probably rare for statutory right refunds to be given by way of vouchers (unless that’s how the original purchase was paid) it may occur through a customer request or by accident.

Either way we accept that the Daily Gross Takings (DGT) and corresponding VAT can be adjusted to the value of the refund. Where any additional payment is made to compensate the customer this will be outside the scope of VAT and DGT must not be adjusted.

There is no difference to the tax outcome whether this is viewed as a cancellation or a reduction in consideration.

Recalled goods

Goods recalled by a manufacturer should be treated in the same way as for statutory rights refunds. This does not apply to goods recalled for repair or modification.

Returned goods under retailer’s published policy

Some retailers refund in full, some only refund a reduced amount. The refunds may be in cash (or equivalent) or by voucher. However, the common theme is that there is a published refund policy setting out the customers (non-statutory) rights to return goods post-sale. The terms may also place certain obligations on the customer in respect of packaging and the goods being fit to resell. Normally the customer is required to show the sales receipt at the time they return the goods as evidence of the original sale and the value of it. If no receipt is produced see Refunds with no receipt below.

We accept that a full refund in these cases represents a reduction in consideration in the same way as for statutory rights refunds.

Where a partial refund is made retailers can adjust the DGT to the extent of the value refunded. However, the original supply is not cancelled; therefore any of the original consideration that is retained by the retailer remains consideration for the original supply and must not be adjusted.

Other refunds with a receipt

In these cases the customer returns goods with evidence of the original supply but outside of the normal returned goods policy. For goodwill reasons the retailer may agree to take the goods back and refund some or all of the original payment. Normally the refund is in the form of a voucher.

We accept that a full refund in these cases represents a reduction in consideration in the same way as for statutory rights refunds.

Where a partial refund is made retailers can adjust the DGT to the extent of the value refunded. However, the original supply is not cancelled; therefore any of the original consideration that is retained by the retailer remains consideration for the original supply and must not be adjusted.

Refunds with no receipt

Where the customer returns goods without a receipt and there is no way of linking the return to the original supply, the time of supply, the value and even whether there was a supply, is unknown.

In this case there is no evidence of an original supply against which the DGT can be reduced. If the retailer chooses to pay an amount of money in exchange for the goods then that does have the characteristics of a new, unrelated, transaction. In such circumstances no reduction in DGT can be permitted.

Such a transaction should be treated as a purchase of goods from the customer by the retailer for a consideration. Subject to the scheme conditions being met the second-hand margin scheme could apply to the resale of the goods.

Vouchers

In most cases refund vouchers are in the form of a face value retailer voucher within the meaning of VATA94, Schedule 10A, Paragraph 4(1) and the normal rules on the treatment of vouchers will apply.

The retailers DGT can be adjusted as set out above to reflect the value of the voucher issued.

If it is a single purpose voucher the retailer will need to account for VAT on issue at the relevant VAT rate for the underlying goods it entitles the customer to. Otherwise the retailer should account for the voucher on redemption against the supply of new goods.

Exchanged goods

Some customers may return the goods and immediately select replacement items.

Example: customer returns a £20 adult jumper and is entitled to a £10 refund under refund conditions but exchanges jumper for a children’s outfit priced at £10.

In accordance with the principles set out above, this should be treated as though an exchange voucher had been issued and immediately redeemed. Many retailer, for stock control purposes, already record the exchange as effectively two transactions. Thus there will be a £10 reduction in Standard rate DGT followed by a £10 zero-rated sale.

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