

## MARGIN SCHEME

Certified Practising Accountants

### What is the margin scheme:

The margin scheme is a way of working out the GST you must pay when you sell property as part of your business. You can only apply the margin scheme if the sale of the property is taxable.

If you purchase property where the margin scheme was applied to the sale, you cannot claim a GST credit for the GST included in the purchase price of the property.

The margin scheme cannot be used on your property sales if you originally purchased the property as fully taxable and the margin scheme was not used. In this situation you may be able to claim the GST included in the purchase price if the property is going to be used in your business.

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### Using the margin scheme:

The amount of GST you must normally pay on a property sale is equal to one-eleventh of the total sale price.

When you use the margin scheme, the amount of GST you must pay on a property sale is equal to one-eleventh of the margin.

Your margin is generally the difference between the sale price and one of the following:

- the amount you paid for the property
- the value of the property provided in an approved valuation of the property as at 1 July 2000 (if certain conditions are satisfied).

Your margin is not:

- the profit margin; unlike an accounting profit margin, the margin on the sale does not take into account costs you incurred to develop the new property or subdivide the land
- the selling price minus a valuation of the property for a property purchased after 1 July 2000
- worked out the same way as a capital gain, it is possible that you still pay GST under the margin scheme when you have no capital gain for income tax purposes.

### Using the margin scheme when you sell property:

If you sell property as part of your business and you are registered for GST, you may be able to use the margin scheme to work out how much GST you must pay.

Whether you can use the margin scheme depends on how and when you first purchased your property. For GST purposes the date when settlement occurs will be the date that you have purchased the property.

You can use the margin scheme if you purchased the property before 1 July 2000 (the start of GST), or if it is purchased after 1 July 2000 from someone that:

- was not registered or required to be registered for GST

- who sold you existing residential premises
- who sold the property to you as part of a GST-free going concern
- who sold you the property using the margin scheme.

You cannot use the margin scheme if when you first purchased the property the sale to you was fully taxable and the margin scheme was not used. In this case the amount of GST included in the price you paid is one-eleventh of the full purchase price.

#### *The consideration method*

You can use the consideration method regardless of when you purchased the property you are selling.

Using the consideration method, the margin is the difference between the properties' selling price and the original purchase price. That is, the sale price less the purchase price equals the 'margin'.

The sale price must include any settlement adjustments contained within the sales contract.

When working out the margin using the consideration method, do not include any of the following as part of the purchase price:

- costs for developing the property
- legal fees
- any options you purchased
- stamp duty
- any other related purchase expenses.

#### *The valuation method*

You can generally only use the valuation method to work out the margin if you originally purchased your property before 1 July 2000. Using the valuation method, the margin is the difference between the selling price and the value of the property (usually as at 1 July 2000). That is, the sale price less the value of the property (usually as at 1 July 2000) equals the 'margin'.

You can only use the valuation method if you hold an approved valuation

#### *When you cannot use the margin scheme:*

If you were charged the full rate of GST when you originally purchased the property, the margin scheme can't be used. Generally, if you were charged the full rate of GST when you purchased a property as part of your business you would have claimed the GST back.

#### *Account for GST when using the margin scheme:*

##### *Sales*

If you sell property and have chosen to use the margin scheme, you only report the amount of the 'margin' on your sale at **G1** (total sales). Do not report the full amount of payment you receive.

If the margin is nil (or a negative amount), do not report any amount at **G1** (total sales).

If you are using the accounts method, report the amount of GST on your margin at **1A** (GST on sales). If you are using the calculation worksheet method, use the worksheet to calculate the amount of GST to report at **1A** (GST on sales).

### *Purchases*

If you buy property and the GST included in the price you paid was worked out using the margin scheme, you are not entitled to a GST credit for the purchase. Do not report the amount of your payment for the purchase at **G10** (capital purchases) or **G11** (non-capital purchases).

Do not report any GST credit for the purchase at **1B** (GST on purchases).

### *Record keeping:*

In addition to your normal GST record keeping obligations we recommend you keep:

- accounting records for the transaction
- evidence of the original purchase price of the property
- records showing how you have applied the margin scheme and identifying the particular property that you have sold using the margin scheme
- records showing your agreement with the purchaser to use the margin scheme
- if you used the valuation method, the valuations or other documents showing how you arrived at the value of the property.

Examples of these records include:

- sale and purchase contracts and settlement statements
- details of how you worked out the margin
- your agreement in writing to use the margin scheme
- the approved valuation.

### *Sample Calculation:*

Bob is a GST registered builder. On 1 December 2002, Bob purchased a block of land for \$150,000 from a vendor who was not registered for GST.

Bob paid \$550 in conveyancing fees and \$7,000 in stamp duty on the purchase of the land.

Bob later constructed a house on the land and sold the house and land for \$315,000. Bob chose to use the margin scheme to work out the GST on the sale.

The margin for the sale of the house and land package is \$165,000, the sale price of the property minus the purchase price of the property (\$315,000 - \$150,000).

The GST Bob must pay on the margin for the sale is \$15,000 (\$165,000 x 1/11th).

Bob has a tax invoice for the conveyancing fees and can claim a GST credit of \$50 (\$550 x 1/11th) in the tax period in which the purchase applies to.

Bob also holds tax invoices for \$110,000 of business purchases he made when building the house. Bob is able to claim \$10,000 in GST credits for these purchases.

Bob is not entitled to any GST credits on the stamp duty as GST is not included in the cost.

This information has been sourced from <https://www.ato.gov.au/General/Property/In-detail/GST/GST-and-the-margin-scheme/>