

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 ,or
- 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.



Certain requirements have to be met for you to use the margin scheme. These requirements vary depending on when you bought the property and when you are selling the property.

End of attention

In terms of the purchase you made, requirements vary depending on whether you purchased your property:

- before 1 July 2000
- on or after 1 July 2000
- on or after 9 December 2008.

In terms of the sale you made or make, the requirements vary depending on whether you make the sale:

- on or after 17 March 2005
- on or after 29 June 2005.

Example 1: using the consideration method for property purchased on or after 1 July 2000.

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 ($\$165,000 \times 1/11$ th).

Bob has a tax invoice for the conveyancing fees and can claim a GST credit of \$50 ($\$550 \times 1/11$ th) 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.

Example 2: using the consideration method for property purchased before 1 July 2000.

James is registered for GST and reports GST quarterly.

On 15 June 2000 James purchases vacant land for \$110,000 as part of his business. In May 2008, James contracts to sell the land for \$220,000 and specifies in the contract that he will apply the margin scheme.

The margin for the sale of the land is \$110,000, the sale price of the property minus the purchase price of the property ($\$220,000 - \$110,000$). The GST James must pay on the margin for the sale is \$10,000 ($\$110,000 \times 1/11$ th).

Because James chose to apply the margin scheme, the purchaser cannot claim a GST credit.

Example 1 Figures

Purchase Price	\$150,000
Conveyancing Fees	\$550
Stamp Duty	\$7000 (no GST payable)
Construction Costs	\$110,000
Sale Price	\$315,000
Margin	\$165,000 ($\$315,000 - \$150,000$)
GST on Margin (DEBIT)	$\$165,000/11 = \mathbf{\$15,000}$
Input Tax Credits (CREDIT)	$\$110,000/11 = \mathbf{\$10,000}$