

Charter Partners Tax & Business Tips GST and the Margin Scheme

The margin scheme is an alternative method of calculating the GST payable on sales of real property. It allows sellers of real property to pay GST equal to one-eleventh of the 'margin' rather than one-eleventh of the total sale price.

Depending on when, and from whom, the property was purchased, the margin is generally the difference between the sale price and:

- the amount the seller paid for the property; or
- a valuation of the property at a given date.

Entities may be able to use the margin scheme when making taxable supplies of real property where they are:

- selling a freehold interest in land;
- selling a stratum unit; or
- supplying a long-term lease.

However, suppliers will not be able to use the margin scheme if they are selling real property that they:

- acquired through a taxable sale on which the margin scheme was not used;
- inherited from a person who would have not been able to use the margin scheme;
- acquired from a member of the same GST group who would not have been able to use the margin scheme; or
- as a participant in a GST joint venture, acquired from the joint venture operator who would not have been able to use the margin scheme.

Purchasers that acquire property under the margin scheme are not entitled to claim input tax credits for the GST they pay in the purchase price. Exercise care with the 2008 budget amendments and the recent Brady King case.

Written agreements to use the margin scheme

For sales of real property made under contracts entered into on or after 29 June 2005, suppliers and purchasers of real property must agree in writing to use the margin scheme by the time the property is supplied (usually at settlement).

For real property sold under rights or options granted before 29 June 2005, suppliers are not required to make an agreement in writing with the purchaser to use the margin scheme. Suppliers must make a choice to use the margin scheme before the property is supplied and have records to show the date the choice was made.

Property valuations

Suppliers of real property under the margin scheme may be required to have their properties valued using an approved valuation method to work out the margin on the supply.

If you would like to know more about GST and the Margin Scheme, please click [here](#)