

DEALING WITH THE GST MARGIN SCHEME

This article explains the basics of one of GST's most complex areas, the Margin Scheme.

GST applies to most sales of NEW residential premises and to most sales of Commercial, Industrial, Land & Retail premises. In many cases, property vendors have the option of applying the GST to the full price or to the "Margin" between the present selling price and the property's value at 1st July 2000 or purchase date if after. This option, as the Margin scheme, will usually result in less GST being payable.

Why would vendors apply GST to the full price when it results in more GST being payable than under the Margin Scheme?

The main answer is that purchasers are NOT entitled to claim Input Tax Credits (ITC's) for any GST charged if they buy a property under the Margin Scheme. For example consider a property sold on 31st December 2001 at a GST exclusive price of \$200,000, which the vendor acquired on the 1st January 2001 for \$100,000. The GST calculations under both the schemes would be as follows:

* Price & Cost Elements	Full GST	Margin Scheme
a) @ 31/12/2001	\$200,000	\$200,000
b) @ 01/01/2001	\$100,000	\$100,000
c) Margin (a-b)	N/A	\$100,000
d) Value subj GST	\$200,000	\$100,000
e) GST (d x 10%)	\$ 20,000	\$ 10,000
f) GST inclusive	\$220,000	\$210,000
g) ITC claimable	\$ 20,000	N/A
h) Net after ITC's	\$200,000	\$210,000

**Prepared by Stephen Baxter, Associate Director, Indirect Tax Consulting Group Ph 92212888 and does not cover all the GST issues relating to property industry supplies.*

Where no Margin Scheme is applied

A GST registered business will pay a lower net price for the property if GST is charged under full GST method & ITC's are claimed. Also vendors might not apply the Margin Scheme if the GST legislation expressly forbids them from doing so if they acquired the property under a taxable supply where GST was payable on the full price.

Where the Margin Scheme is applied

1. The purchaser is NOT registered for GST and not entitled to claim ITC's.
2. The purchaser IS registered for GST but will use the property to make input taxed supplies.
3. The increase in value of the property since 1st July 2000 is minor.
4. Stamp Duty payable is reduced as it is payable on the net price.

The vendors decision about whether to use the Margin Scheme should be in consultation with the purchaser. Sales contracts should include clauses offering the choice of tax method to the purchaser. When marketing land, the developers should make reference to the choice of tax method. Auctioneers should announce whether the bids are GST inclusive or exclusive and whether a choice of tax method is offered. The choice to use the Margin Scheme can provide advantages to both parties and is worth consulting with your GST advisor or accountant.

This is a guide only and persons should seek independent advice and we give no warranty of its contents to any persons who may rely on its contents for any reason financial or otherwise.

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