

# GST and the margin scheme



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## TERMS WE USE

When we say:

- **property**, we are referring to the GST term **real property** including:
  - a freehold interest in land
  - a stratum unit, or
  - a long term lease
- **sale** or **sell**, we are referring to the GST term **supply**
- **purchase**, we are referring to the GST term **acquisition**
- **GST credit**, we are referring to the GST term **input tax credit**
- **business** we are referring to the GST term **enterprise**
- **payment** (made or received), we are referring to the GST term **consideration**.

 See the 'Definition' section on page 13 for more common terms.

 This document takes into account the legislative changes to the margin scheme which came into effect on 9 December 2008.

This measure intends to ensure that the interaction between the margin scheme provisions and the going concern, farmland and associate provisions does not allow property sales to be structured in a way that results in GST not applying to the value added to property once it enters the GST system.

## ABOUT THIS GUIDE

This guide will help you:

- decide whether to use the margin scheme
- calculate GST correctly if you use it.

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.

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 was 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.

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 or
- 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.

See 'Working out the margin and GST payable' on page 7.

There are two methods you can use to work out the margin:

- the consideration method, or
- the valuation method.

What method you can use will depend on when you originally purchased the property you are selling.

## THE CONSIDERATION METHOD

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

The margin, using the consideration method, is the difference between the property's 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.

➤ See 'Record keeping' on page 11 for more information about what records you must keep when you sell your property using the margin scheme.

For more information on including settlement adjustments in the price for GST purposes, refer to *GSTD 2006/3 Goods and services tax: are settlement adjustments taken into account to determine the consideration for the supply or acquisition of real property?*

## 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 ( $\$165,000 \times 1/11^{\text{th}}$ ).

Bob has a tax invoice for the conveyancing fees and can claim a GST credit of \$50 ( $\$550 \times 1/11^{\text{th}}$ ) 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 ( $\$110,000 \times 1/11^{\text{th}}$ ).

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

## 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**. The margin, using the valuation method, 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 (see Section 05 – ‘Valuations’ on page 9).

### EXAMPLE 3: using the valuation method

Bayview Limited is a GST registered property developer and reports GST on a monthly basis.

Bayview bought land in 1970 for \$30,000 and entered into a sales contract to sell the land in September 2008 for \$1.44 million. The contract stated that the margin scheme would be used to work out the GST on the sale. Settlement occurred on 2 December 2008.

Bayview obtained a professional valuation of the land (as at 1 July 2000) of \$1 million in November 2008 (Bayview’s tax period ends on 31 December).

Using the valuation method, Bayview calculates the margin as the selling price minus the value of the land provided in the professional valuation that they received, (that is  $\$1,440,000 - \$1,000,000 \times 1/11^{\text{th}}$  which equals \$440,000). When lodging their December 2008 activity statement, Bayview reports and pays the \$40,000 GST on the sale of the land.

Because Bayview chose to apply the margin scheme, the purchaser cannot claim a GST credit for the GST included in the price they paid for the property.

 For more information about:

- what records you must keep when you sell your property using the margin scheme, see ‘Record keeping’ on page 11
- valuations, see ‘Valuations’ on page 9.

## CHANGING METHODS

You can change how you calculate the margin (consideration or valuation method) up until the due date for lodgment of your activity statement for the relevant tax period if you:

- purchased your property before 1 July 2000, and
- choose to apply the margin scheme at, or before, the time you sell the property.

If you have an approved valuation by your activity statement due date, for the period the GST on the sale applies, and you work out the margin based on that valuation, you cannot later change to:

- another valuation
- a different method of valuation
- an amount based on your purchase price (the consideration method).

If you have more than one approved valuation by the activity statement due date, you must choose one of these by the activity statement due date. After that time you cannot change.

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.

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 or
- 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.

Use the sections in this guide to find the information relevant to your particular situation.

## SALES OF PROPERTY YOU ORIGINALLY PURCHASED BEFORE 1 JULY 2000

If you are selling property under the margin scheme and you originally purchased (or held an interest in) it before 1 July 2000, you can choose to pay the GST on the difference (that is, the margin) between either the sale price and the:

- price you paid when you purchased the property (the consideration method), or
- value of the property at a relevant valuation date, usually 1 July 2000 (the valuation method).

### EXAMPLE 4:

Tom is registered for GST and is carrying on a business of leasing commercial property. Tom bought one of his commercial properties in 1989 for \$50,000. He sells this commercial property in 2003 for \$105,000 using the margin scheme. If Tom applies the consideration method to calculate his GST liability, the margin is \$55,000 (\$105,000 – \$50,000). Tom's GST liability is 1/11<sup>th</sup> of this amount, which is \$5,000.

However, if Tom decides to use the valuation method and obtains a market valuation (approved) of the property as at 1 July 2000 and the property is valued as \$61,000, then the margin is \$44,000 (\$105,000 – \$61,000). Tom's GST liability would then be 1/11<sup>th</sup> of this amount, which is \$4,000.

➤ For ways of working out the valuation at 1 July 2000, refer to *GSTR 2006/7 Goods and services tax: Goods and services tax: how the margin scheme applies to a supply of real property made on or after 1 December 2005 that was acquired or held before 1 July 2000*.

## SALES OF PROPERTY YOU ORIGINALLY PURCHASED ON OR AFTER 1 JULY 2000

If you are selling property under the margin scheme and you originally purchased (or held an interest in) it on or after 1 July 2000, you:

- must use the consideration method, that is, you must pay the GST on the difference (margin) between the sale price and the price you paid when you purchased the property, and
- cannot use the valuation method.

### EXAMPLE 5

John is registered for GST and is carrying on an enterprise of property development. He buys vacant land from Jane, who is not registered for GST for \$100,000 on 25 September 2007. John improves the property with roads and other services and sells it to George for \$210,000 on 2 October 2008. Then, the margin is \$210,000 – \$100,000 = \$110,000. John must pay 1/11<sup>th</sup> of the margin, that is, \$10,000, as GST.

⚠ Generally you will use either of the above two ways to work out the GST payable when the margin scheme is used when selling property.

## SALES OF PROPERTY YOU MAKE ON OR AFTER 17 MARCH 2005

Eligibility to use the margin scheme changed for sales of property made from 17 March 2005 onwards. This means, you cannot use the margin scheme if you:

- purchased the property as fully taxable and the margin scheme was not used
- inherited the property from a person who could not use the margin scheme
- obtained the property from a member of the same GST group who could not use the margin scheme, or
- obtained the property, as a participant in a GST joint venture, from the joint venture operator who could not use the margin scheme.

## SALES OF PROPERTY YOU MAKE ON OR AFTER 29 JUNE 2005

Sales of property using the margin scheme that are made from 29 June 2005 onwards require a written agreement between the seller and purchaser to use the margin scheme.

As a seller, you must agree in **writing** before the settlement date, with the purchaser to sell the property under the margin scheme. Prior to the 29 June 2005 there was no requirement to agree in writing with the purchaser to use the margin scheme, but records must be kept that indicate you made a choice to sell the property using the margin scheme.

**!** The change in eligibility rules that apply from 17 March 2005 onwards, continue to apply to sales from 29 June 2005 onwards, see 'Sales of property you make on or after 17 March 2005' on page 7.

### SALES OF PROPERTY YOU ORIGINALLY PURCHASED ON OR AFTER 9 DECEMBER 2008

If you are selling property under the margin scheme that you originally purchased (or entered into a contract to purchase) after 9 December 2008, then in some circumstances, there may be some changes to your eligibility to use the margin scheme, and the way your margin is calculated.

You cannot use the margin scheme if the entity you purchased the property from **was not** eligible to use the margin scheme and the property was purchased:

- as part of a GST-free going concern
- as GST-free farm land
- from an associate for no consideration (no payment).

If the entity you purchased the property from was eligible to use the margin scheme and you purchased the property through one of the above, you must include the value you and the previous seller added to the property when you calculate the margin.

### PROPERTY YOU PURCHASED AS A MIXED SUPPLY

If the property you are selling is a mixed supply, that is, partly input-taxed or GST-free and partly taxable, you can apply the margin scheme to the taxable part of the sale.

### WORKING OUT THE PURCHASE PRICE FOR SUBDIVIDED LAND

You may use any reasonable method of apportionment to work out the proportion of the purchase price for a subdivided allotment or stratum title unit.

If you purchase land and subdivide it, or build strata title units on it and later apply the margin scheme, the margin is the selling price less the corresponding portion of the price you paid for the property.

#### EXAMPLE 7: working out the margin on subdivided land or stratum title units

Josephine is a GST registered property developer. She purchases a 2,000 square metre block of land for \$240,000 from a private individual that was not required to register for GST. The block is of equal value per square metre. She subdivides the block into two allotments of 600 square metres each, and one allotment of 800 square metres.

Josephine decides to use an area basis to work out the purchase price of the subdivided allotments. The purchase price for each of the 600 square metre allotments was \$72,000 ( $600/2,000 \times \$240,000$ ), and the purchase price of the 800 square metre allotment is \$96,000 ( $800/2,000 \times \$240,000$ ).

If Josephine sells the 800 square metre allotment for \$140,000, she must pay \$4,000 GST on the sale of this allotment, that is, the selling price minus the purchase price of the property divided by eleven, that is  $(\$140,000 - \$96,000) \times 1/11^{\text{th}}$ .

**!** If the purchase price is the same as, or more than the selling price of the property, you do not have a margin so you do not have to pay GST on the sale.

**>** For more information, on reasonable apportionment methods, refer to paragraphs 58–68 of *GSTR 2006/8 Goods and services tax: the margin scheme for supplies of real property acquired on or after 1 July 2000*.

If you are selling property under the margin scheme, you may need to have your property valued to work out the margin, using an approved valuation method. An approved valuation is generally only required for property that you have owned prior to 1 July 2000.

## VALUATION METHODS YOU CAN USE

There are three valuation methods available. **As a general rule**, if you have chosen to apply a valuation method to work out the margin, you must have undertaken a valuation by the due date for lodging your activity statement for the tax period the sale applies to.

From 1 December 2005, valuation methods include:

- the market value, in writing by a professional valuer
- the purchase price in a contract entered into before 1 July 2000 by parties dealing at arm's length
- the most recent value set by a state or territory government department for rating or land tax purposes (made before the valuation date).

For properties that are **partly completed premises** at the valuation date you must use the value, in writing, by a professional valuer.

⚠ A professional valuer is any of the following:

- a person registered or licensed to carry out real property valuations under a Commonwealth, State or Territory law
- a person who carries on a business as a valuer in a State or Territory where that person is not required to be licensed or registered to carry on a business as a valuer
- a person who is:
  - a member of the Australian Property Institute and accredited as a Certified Practising Valuer
  - a member of the Royal Institute of Chartered Surveyors and accredited as a Chartered Valuation Surveyor, or
  - a member of the Australian Valuers Institute and accredited as a Certified Practising Valuer.

➤ For more information about valuation methods, refer to *Margin Scheme Valuation Determination MSV 2005/3*.

## IF YOU DO NOT HAVE A VALUATION WHEN YOUR ACTIVITY STATEMENT IS DUE

If you have chosen to apply a valuation method to work out the margin, you must have had a valuation undertaken by the due date for lodging your activity statement for the tax period the sale applies to.

There may be exceptional circumstances that prevent you from obtaining a valuation by your activity statement due date. If you have not done so we may allow you a short period to obtain an approved valuation.

➤ For more information refer to *Practice Statement PSLA 2005/16 – Further period to make an approved valuation for the purposes of working out the margin for the supply under Division 75 of the A New Tax System (Goods and Services Tax) Act 1999*.

⚠ If using the valuation method, you can choose to work out the margin based on an approved valuation at any time up until your activity statement lodgment due date.

## IF YOUR VALUATION IS NOT VALID

If you find that the valuation method you used is not one listed in this guide, you can:

- fix the actual valuation you used so that it is valid (that is, an approved valuation)
- use another approved valuation that was done by your activity statement due date
- work out the margin and GST payable on the sale of completed property using a value for rating or tax purposes made before the valuation date, or
- use the consideration method.

A value for rating or tax purposes is the value of the property that is worked out by:

- a state or territory government department, or
- a professional valuer on behalf of a state or territory government department for rating purposes.

⚠ If you find you have used a valuation method that is not valid (that is not an approved valuation), we may allow you to work out the margin on the sale again. If you correct a valuation or use a different valuation, and you must pay more GST, we may apply administrative penalties and the general interest charge. However, if you have made a genuine mistake, we will not apply administrative penalties.

# 06 DECIDING WHEN TO USE THE MARGIN SCHEME AND THE WRITTEN AGREEMENT

Both the buyer and seller must agree in writing to apply the margin scheme if the contract for sale was made **on or after 29 June 2005**. The agreement to use the margin scheme must be reached by the time the property is supplied (usually at settlement).

No written agreement between the seller and purchaser was needed if the sale was made either:

- before 29 June 2005
- on or after 29 June 2005 but you entered into a contract or granted rights or options over the property you are selling before 29 June 2005.

There is no set format for a written agreement, but there must be a written statement which makes it clear that you and the purchaser have agreed to use the margin scheme on the sale, and clearly identifies the property being sold. This statement may form part of the sale contract, or it may be a separate document.

If the purchaser agrees to allow the seller of the property the absolute discretion to apply the margin scheme, the seller must confirm (in writing) that the margin scheme has been applied, on, or before the settlement date.

## EXAMPLE 8: evidence of the seller's choice to apply the margin scheme

John lodges a subdivisional plan for Seaview Estate comprising of 200 lots that is approved by the local authority. John writes to his solicitor instructing that lots 1 to 50 in Seaview Estate will be sold using the margin scheme. This is so the solicitor can advise the buyers of lots 1 to 50 that the margin scheme will apply and so it can be reflected in the sale contracts. The purchasers of lots 1 to 50 all agree in writing to allow the sale to be made under the margin scheme.

⚠ John would need to provide some written evidence that the margin scheme applied to lots 1 to 50 before completion of the sale if John's contract contained a clause such as:

*The Vendor and Purchaser agree and acknowledge that the Vendor shall be entitled absolute discretion to use the margin scheme in determining the GST that may be applicable to this transaction. This clause shall be deemed as being written consent to the application of the margin scheme.*

The above clause is unlikely to meet the requirements of a written agreement as the Purchaser is not aware whether the Vendor has in fact applied the margin scheme to the sale.

If you did not have a written agreement by the time the sale was made you may ask for permission to extend the time to have the agreement in writing. To do this, write to us at:

**Australian Taxation Office**

**GPO Box 9935**

**In your capital city**

You must show that:

- you meet all the requirements to apply the margin scheme (other than the requirement for the supplier and purchaser to have made the agreement in writing on or before the marking of the supply), and
- you are not making the agreement to avoid your GST obligations.

We will write to you and tell you whether or not you may use the margin scheme on your sale.

➤ For more information, refer to *PS LA 2005/15: The Commissioner's discretion to extend the time in which the agreement in writing must be made to apply the margin scheme under Division 75 of the A New Tax System (Goods and Services Tax) Act 1999.*

This practice statement applies to sales of property made under contracts entered into on or after 29 June 2005.

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 – these records should also identify the particular property that you have sold using the margin scheme
- records showing your agreement with the purchase 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 (see the clause included in 'Deciding when to use the margin scheme' page 10)
- the approved valuation.

You must keep all of these records that relate to your sale for five years after the sale.

## Records for subdivided land

If you are subdividing land or building stratum title units on the land, you must keep records showing how you worked out the margin for each subdivided allotment or each stratum title unit.

For example you should keep records on how you apportioned:

- a valuation of land you held at 1 July 2000 which has now been subdivided or developed into stratum units, or
- the purchase price of land acquired after 1 July 2000 which has been subdivided or developed into stratum units.

A valuation or the purchase price can be apportioned by using any fair and reasonable basis.

## Issuing a tax invoice

You do not need to issue a tax invoice to the purchaser for sales made solely under the margin scheme. This is because the purchaser cannot claim a GST credit for a sale made under the margin scheme. You may however issue a receipt for the price paid.

## Record keeping for sales and contracts made before 29 June 2005

For these sales, sellers must have kept records that evidence their choice to use the margin scheme and when that choice was made.

The record of your choice to apply the margin scheme on sales before 29 June 2005 is often contained in the contract of sale. Other forms of evidence may include:

- correspondence
- a company or trust minute
- a file note.

The records must identify the property by, for example:

- a project lot number
- certain lots on a particular estate
- land contained in a specified contract.

We may also accept evidence of your choice to apply the margin scheme held by other parties, such as your professional advisers, valuers or financiers.

If you sold your property under the margin scheme before 29 June 2005, and used the valuation method to work out the margin, different valuation methods may apply. The different valuation methods are contained in the following Determinations:

- *Margin Scheme Valuation Determination MSV 2000/1*
- *Margin Scheme Valuation Determination MSV 2000/2*
- *Margin Scheme Valuation Determination MSV 2005/1*
- *Margin Scheme Valuation Determination MSV 2005/2.*

### Deciding to use the margin scheme – prior to 29 June 2005

Although you must have chosen to apply the margin scheme by the time the sale was made, you did not need a written agreement between the seller and purchaser if the sale was made either:

- before 29 June 2005
- on or after 29 June 2005 but you entered into a contract or granted rights or options over the property before 29 June 2005.

For these transactions, the seller chose whether to apply the margin scheme. The seller must have chosen to apply the margin scheme on, or before, selling the property and could not choose to apply it after the sale. For example, if you sold property under a standard land contract then you must have chosen to apply the margin scheme, at or before, the settlement date.

### Requests for more time

If you requested an extension of time to work out the GST payable on the sale of property as if the margin scheme applies, then you should have kept the following:

- any written request made to the Tax Office for more time to choose the margin scheme, and
- our response.

If you did not apply the margin scheme by the time the sale was made, you may ask to account for GST on the sale as if the margin scheme applied. To do this, write to us at:

#### Australian Taxation Office

GPO Box 9935

#### In your capital city

You must show that:

- you did not choose to apply the margin scheme on or before the date you sold the real property because of a mistake
- you satisfy all other requirements under the margin scheme
- the purchaser cannot claim a GST credit or a decreasing adjustment for the purchase
- you and the purchaser did not agree on a price that included GST, and
- you are not making the agreement to avoid paying GST.

We will write to you and tell you whether or not you may use the margin scheme on your sale.

➤ For more information about when you can account for GST on property you have sold as if the margin scheme had been applied, refer to *PS LA 2005/2 (GA) GST and time of choice to apply the margin scheme*. This practice statement only applies to supplies that were made before 29 June 2005.

## DEFINITIONS

### Acquisitions

(See 'Purchases').

### Associates

Associates include people and entities closely associated with you, such as relatives, or closely connected companies or trusts. A partner in a partnership is an associate of the partnership.

### Consideration

(See 'Payment')

### Creditable purpose

Relates to purchases or importations which are made as part of carrying on your enterprise within Australia, but excludes those made as part of making input taxed supplies, or those made which are of a private or domestic nature.

### GST credit (input tax credit)

You can claim GST credits for the GST included in the price of purchases you make to use in your business. You cannot claim a credit for the part of the purchase you use for private purposes or, generally to make input taxed sales. You must have a tax invoice to claim a GST credit for purchases of more than \$82.50 (including GST). For purchases of \$82.50 or less (including GST) we recommend you still have documentary evidence to support your claims.

### GST joint venture

A GST joint venture includes 2 or more entities involved as participants in:

- a joint venture for the exploration or exploitation of mineral deposits, or for an approved purpose determined by the Commissioner. For the property and development industry an approved purpose is for the design, or building, or maintenance, of residential or commercial premises; and
- the joint venture is not a partnership; and
- the entities involved jointly apply on the approved form for approval as a GST joint venture; and
- each of those entities satisfies certain requirements; and
- the application nominates specific entities to be the joint venture operator; and
- that the nominated joint venture operator, if not a party to the joint venture agreement, satisfies certain requirements.

In the case of property activities, a GST joint venture may involve developers and builders as an example.

### GST-free sales

You do not include GST in the price of GST-free sales that you make but you can claim GST credits for the GST included in the price of purchases you use to make these sales.

Examples of GST-free sales include:

- basic food
- exports
- sewerage and water
- the sale of a business as a going concern
- non-commercial activities of charities, and
- most education and health services.

### Input tax credit

(See 'GST credit')

### Input taxed sales

You do not have to pay GST on input taxed sales you make and you cannot claim GST credits for purchases relating to input taxed sales.

Two of the most common types of input taxed sales are:

- financial sales (supplies)
- supplies of existing residential premises.

In special cases, you can claim a GST credit for a purchase that relates to making financial supplies.

### Margin scheme

You can choose to use the margin scheme when you make a taxable sale of property. You must pay GST on one-eleventh of the margin for the sale, not one-eleventh of the sale price. You cannot use the margin scheme if the sale of a property to you was taxable but the margin scheme was not used.

### Payment (consideration)

Payment for GST purposes is anything you receive for providing goods, services or any other sale. It is usually money, but can be some other form of payment such as goods or services provided instead of money, such as in barter transactions. Agreeing not to do something could also be payment.

### Purchases (acquisitions)

For GST, a purchase includes buying of goods or services such as trading stock, a lease, consumables and other things (including importations).

### Professional valuer

Is defined for the purposes of this determination to mean:

- a person registered or licensed to carry out real property valuations under a Commonwealth, State or Territory law; or
- a person who carries on a business as a valuer in a State or Territory where that person is not required to be licensed or registered to carry on a business as a valuer; or
- a member of the Australian Property Institute and is accredited as a Certified Practising Valuer.

### Property (real property)

For GST purposes, property includes:

- land
- land and buildings
- interest in land
- rights over land
- contractual rights over land
- the licence to occupy land.

### Sale of a business as a going concern

A business is sold as a going concern if:

- all of the things needed to continue operating the business are supplied to the buyer
- the supplier carries on the business until it is sold.

A supply of a 'going concern' is GST free if the:

- supply is for payment
- purchaser is registered (or required to be registered) for GST, and
- supplier and the purchaser have agreed in writing that the supply is of a going concern.

### Sales (supplies)

For GST, a sale includes:

- selling goods or services
- leasing premises
- hiring equipment
- giving advice
- export of goods.

### Supplies

(See 'Sales')

### Taxable sales (supplies)

You make a taxable sale if you are registered (or required to be registered) for GST and:

- you make the sale for payment
- you make the sale in the course of, or to further, a business you carry on
- the sale is connected with Australia.

A sale is not taxable if it is GST-free or input taxed.

You must pay GST on taxable sales you make. Generally you can claim GST credits for the GST included in the price of purchases you use to make taxable sales.

### Tax invoice

A tax invoice is a document generally issued by the seller. It shows:

- the price of a sale,
- whether it includes GST
- the amount of GST
- the seller's ABN.

You must have a tax invoice before you can claim a GST credit on your activity statement for purchases of more than \$82.50 (including GST).

### Tax period

A tax period is the length of time you account for GST on your activity statement. It may be quarterly, monthly or annual.

Quarterly tax periods are periods of three months ending on 30 September, 31 December, 31 March and 30 June.

Monthly tax periods end on the last day of each calendar month.

Annual tax periods span the financial year (1 July to 30 June).

You must lodge an:

- activity statement for each monthly or quarterly tax period even if you make no sales or purchases during the period
- an annual GST return must be lodged for each annual tax period.





## MORE INFORMATION

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For more information about GST and the margin scheme, refer to:

- *GST and property* (NAT 72957)
- *GST and the margin scheme – completing your activity statement* (NAT 10670)
- *Common GST errors – property* (NAT 73112)
- *GSTR 2006/7 Goods and services tax: how the margin scheme applies to a supply of real property made on or after 1 December 2005 that was acquired or held before 1 July 2000*
- *GSTR 2006/8 Goods and services tax: the margin scheme for supplies of real property acquired on or after 1 July 2000.*
- *GSTR 2000/21 Goods and services tax: the margin scheme for supplies of real property held prior to 1 July 2000, and*
- *PS LA 2005/2 (GA) Practice Statement: GST and time of choice to apply the margin scheme.*
- *PS LA 2005/15 The Commissioner's discretion to extend the time in which the agreement in writing must be made to apply the margin scheme under Division 75 of the A New Tax System (Goods and Services Tax) Act 1999.*

For more information, or to obtain a copy of one of our publications:

- visit our website at **[www.ato.gov.au](http://www.ato.gov.au)**
- phone us on **13 28 66**
- write to us at **Australian Taxation Office  
PO Box 9935 in your capital city.**

If you are deaf, or have a hearing or speech impairment, phone us through the National Relay Service (NRS) on the numbers listed below:

- TTY users, phone **13 36 77** and ask for the ATO number you need
- Speak and Listen (speech-to-speech relay) users, phone **1300 555 727** and ask for the ATO number you need
- internet relay users, connect to the NRS on **[www.relayservice.com.au](http://www.relayservice.com.au)** and ask for the ATO number you need.