Fact Sheet: GST and The Margin Scheme

The Margin Scheme is a way for property developers to effectively get a GST credit for a "deemed" GST component on any residential land purchases. As with all things tax related there are a few hooks to be aware of and we will outline those below but for most residential developers the scheme is beneficial and works well.

The Exceptions

You cannot apply the Margin Scheme if the property you purchased was subject to the Margin Scheme. This is because the person you are buying the property from has already received the GST credit for the land. In this situation, you are likely to be paying GST in the purchase price and will receive a Tax Invoice to claim the appropriate GST on the purchase.

You cannot apply the Margin Scheme if you paid GST in the purchase price. This is because if you pay GST on the acquisition you will claim the GST on the purchase as you would any other cost.

There are some complexities if you purchased the land prior to 9 December 2008 so you should **give us a call on (07) 5448 9600** or drop us an email on admin@growaccounting.com.au to have a chat about those if that applies to you.

A Simplified Example of How the Margin Scheme Works

Donald, a GST registered property developer, buys a residential home for $440,000 from a seller who was not registered for GST. Donald intends to demolish the existing house, build, and sell two residential units on the land. The total build cost is $242,000 and the residential units are sold for $430,000 each.

	Cash Summary for the Project
Property Sales (Excludes GST)	$ 860,000
Less Property Purchase	($ 440,000)
Less Development Costs	($ 242,000)
Cash Surplus from Development	**$ 178,000**

Because Donald is GST registered he can claim GST on the development costs.

If Donald applies the Margin Scheme on the sale then he will only have to remit to the ATO the GST on his profit margin as opposed to remitting GST on the total value of the property sales.

That will affect his cash surplus from the project as follows:

	Without the Margin Scheme	With the Margin Scheme
Cash surplus from development	$ 178,000	$ 178,000
Plus GST on Development Costs	$ 22,000	$ 22,000
Less GST on the Sales	($ 78,181)	$ 0
Less GST only on the Margin ($860,000 - $440,000)/11	$ 0	($ 38,181)
Net Surplus from Development	**$ 131,819**	**$ 171,819**

The Margin Calculation for this purpose doesn't consider the development costs. Therefore, It is perhaps easiest to think of the GST payable on the sale reducing by the "deemed" GST paid on the initial GST free land purchase ($440,000/11 = $40,000). Both approaches achieve the same result.

The Biggest Problem We See

To apply the Margin Scheme, Donald must agree in writing with the purchasers of the new units that the Margin Scheme has been applied. This does not have to be in the contract for sale but that is the logical place to have the agreement recorded.

*If Donald does not agree in writing with the purchaser of the new units that the Margin Scheme applies then he **CANNOT** apply the Margin Scheme without specific approval from the ATO.*

Conclusion

If you are contemplating a residential property development then the Margin Scheme can significantly increase your cash surplus on the development. It is a relatively simple approach but there are a few complexities.

We recommend you take advice early in the property feasibility process so you properly understand the way the scheme works.

For more information give me a call in the office on (07) 5448 9600 or drop me a message.

You may also like to have a look at the following ATO publications:

GSTR/2006/8 – A ruling on the Margin Scheme.

Unit 5 61-63 Primary School Court Maroochydore, Qld. 4558
P.O. Box 503, Maroochydore, Qld. 4558 P 07 5448 9600 F 07 5301 8127
www.growaccounting.com.au welcome@growaccounting.com.au