

Methods to work out the margin

If you are selling property under the margin scheme that you originally purchased, or held an interest in, before 1 July 2000, you can calculate the GST payable using either:

- the consideration method
- the valuation method.

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. You cannot use the valuation method.

You must choose to apply the margin scheme at or before the time you sell your property. However, in some circumstances we may approve a request for more time.

Find out about:

- [The consideration method](#)
- [The valuation method](#)
- [Changing methods](#)

See also:

- [GSTR 2006/7 \(/law/view/document?DocID=GST/GSTR20067/NAT/ATO/00001\)](#). *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 \(/law/view/document?DocID=GST/GSTR20068/NAT/ATO/00001&PiT=99991231235958\)](#). *Goods and services tax: the margin scheme for supplies of real property acquired on or after 1 July 2000*
- [GSTR 2000/21 \(/law/view/document?docid=GST/GSTR200021/NAT/ATO/00001\)](#). *Goods and services tax: the margin scheme for supplies of real property held prior to 1 July 2000*
- [Requests for more time \(?anchor=Requestsformoretime1#Requestsformoretime1\)](#).

The consideration method

You can use the consideration method to calculate the GST payable under the margin scheme regardless of when you purchased the property you are selling.

Using the consideration method, the margin 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.



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, for example, 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 to which the purchase applies.

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: 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 purchased vacant land for \$110,000 as part of his business. In May 2008, James contracted to sell the land for \$220,000 and specified in the contract that he would apply the margin scheme.

The margin for the sale of the land is \$110,000, for example, the sale price of the property minus the purchase price ($\$220,000 - \$110,000$). 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.

See also:

- [GSTD 2006/3 \(/law/view/document?DocID=GSD/GSTD20063/NAT/ATO/00001&PiT=99991231235958\)](#). *Goods and services tax: are settlement adjustments taken into account to determine the consideration for the supply or acquisition of real property?*

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. Using the valuation method, the margin is the difference between the selling price and the value of the property (usually as at 1 July 2000).

You can only use the valuation method if you hold an approved valuation.

Example: 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. In September 2008 they entered into a sales contract to sell the land 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.

Prior to settlement, in November 2008, Bayview obtained a professional valuation of the land (as at 1 July 2000) of \$1 million.



Using the valuation method, Bayview calculated the margin as \$440,000, ie the selling price minus the value of the land provided in the professional valuation (\$1,440,000 – \$1,000,000).

Bayview's tax period ends on 31 December. When lodging their December 2008 activity statement, Bayview reported and paid the \$40,000 GST (1/11 of \$440,000) 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.

Find out about:

- [Valuations \(?anchor=Valuations#Valuations\)](#).

Changing methods

If you purchased your property before 1 July 2000 you can change how you calculate the margin, using either the consideration or valuation method, up until the due date for your activity statement to be lodged for the relevant tax period.

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