

## GST: The Margin Scheme for Sales of Property



*Bellevue Hill Luxury Apartments, one of our latest projects.*

### This article explains the basics of one of GST's most complex areas,

that is, the application of the margin scheme to sales of real property. GST applies to most sales of new residential premises and to most sales of commercial, industrial and retail premises. In many circumstances, property vendors have the option of applying GST to the full price or to the "margin" between the property selling price and its acquisition price. This option, known as the "margin" scheme, will usually result in less GST being payable.

One might ask why vendors would ever 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 of property are not entitled to claim input tax credits (ITCs) for GST charged if they acquire property under the margin scheme. For example, consider a property sold on 31 December 2001 at a GST-exclusive price of \$200,000, which the vendor acquired on 1 January 2001 for \$100,000. The GST calculations under both schemes would be:

Price and Cost Elements	Full GST Method	Margin Scheme
(a) Sale Price at 31/12/01 (GST Exclusive)	\$200,000	\$200,000
(b) Acquisition Price at 01/01/01	\$100,000	\$100,000
(c) Margin (GST exclusive) [(a) - (b)]	N/A	\$100,000
(d) Value Subject to GST	\$200,000	\$100,000
(e) GST [(d) * 10%]	\$20,000	\$10,000
(f) GST inclusive price	\$220,000	\$210,000
(g) ITC claimable	\$20,000	N/A
(h) Net Price after ITCs	\$200,000	\$210,000

A GST registered business will pay a lower net price for the property if GST is charged under the full GST method and ITCs are claimed. A further reason why vendors might not apply the margin scheme is that the GST legislation expressly prohibits them from doing so if they acquired the property under a taxable supply where GST was payable on the full price.

#### *The circumstances where the margin scheme is most commonly used are:*

- 1. The purchaser is not registered for GST and is not entitled to claim ITCs.* In particular, new residential properties sold by developers to individuals for their own use or for investment purposes will usually be sold under the margin scheme;
- 2. The purchaser is registered for GST but will use the property to make input taxed supplies.* Examples include commercial premises used by banks and insurance companies and property used for residential leasing; and
- 3. The increase in value of the property from 1 July 2000 is minor.* If the vendor acquired the property prior to 1 July 2000, the margin is the difference between the selling price and the value at the start of 1 July 2000. If the increase in value since

1 July 2000 is minor then the GST payable will be minor. Purchasers may find that the GST payable and unrecoverable as ITCs where the margin scheme is used is less than the interest cost incurred between the time of paying the full GST and the recovery of that amount when the next Business Activity Statement is lodged (up to 111 days later) or when the ATO refund is received (up to a further 14 days later).

The vendor's decision whether to use the margin scheme should be made in close consultation with the purchaser(s). Sales contracts can include clauses offering the choice of tax method to the purchaser. Marketing information provided by developers can make reference to the choice of tax method. Auctioneers can announce whether the bid prices are GST exclusive or inclusive and whether a choice of tax method is offered. The choice available to use the margin scheme can provide advantages to both vendors and purchasers and is worth considering in consultation with your GST advisor.

*This article was prepared by Stephen Baxter, Associate Director, Indirect Tax Consulting Group. It does not attempt to exhaustively cover all the GST issues relating to property industry supplies. Stephen can be contacted on (02) 9247 6464 if you wish to discuss the impact of GST on particular property related transactions which you are undertaking.*

#### *Disclaimer*

*This newsletter is issued as a helpful guide and is not intended to, and does not cover all aspects of the topics discussed. Professional advice should be sought before any action upon these topics is undertaken.*

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## Selecting an Investment Property that will Provide the Most Claimable Tax Depreciation

### What factors should I look for?

*There are several factors for consideration that will enable the property owner to claim higher tax depreciation benefits including:*

#### ❖ Age of the property.

A property with an age of 1-5 years will usually provide higher depreciation than an older property;

#### ❖ Type of property.

If the property is part of a strata or community title development, each unit is entitled to claim common property depreciation benefits in addition to the unit specific depreciation.

#### ❖ Amount of common property.

More commonly shared property usually means higher depreciation claims. Common property comprises two major depreciation components being Division 42 (plant and equipment) and Division 43 (write off allowance).

#### ❖ Amount of Plant and Equipment.

Plant and Equipment includes items such as light fittings, blinds, stoves, lifts, air conditioning plant, and gymnasium equipment. These items can be depreciated at higher rates and so add significantly to the depreciation claim. More plant and equipment usually means higher depreciation claims.

#### ❖ Not using a 'builder supplied depreciation schedule'.

Builder prepared schedules very rarely maximize depreciation claimable from a property. Builders are not specialists in the area and do not maximize depreciation claimable for the purchasers.

#### ❖ Not having a cost schedule included in the contract of sale.

Having a cost schedule included in the contract of sale limits the purchaser to the values of specific items as outlined in the schedule. The ATO allows plant and equipment items to be revalued as part of the purchase price. This means the value

of these items can be increased allowing higher depreciation to be claimed.

#### ❖ Engaging a reputable quantity-surveying firm.

A reputable quantity surveying firm employs research staff to ensure it stays on the cutting edge and a leader in the field in providing schedules that are both ATO compliant and maximize the available returns. The decision of which quantity surveyor to use must not be based on price, as this can cost the client thousands of dollars in missed depreciation over the first five years of ownership.

*Should you or any of your clients require a tick checklist of these items of consideration, please contact Micalie Goninan of our office.*



*Ryde Technology Park, one of our latest projects.*

**BMT & ASSOC**  
QUANTITY SURVEYORS  
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Property Depreciation and  
Construction Cost Consultants

# Division 43 - Building Write Off Allowances Table

# Ralph Review Impacts: Stage 2

Residential	Structural Improvements	Non Residential	Traveller Accommodation	Manufacturing
		20 July 1982	21 August 1979	20 July 1982
		2.5%	2.5%	2.5%
		21 August 1984 22 August 1984	21 August 1984 22 August 1984	21 August 1984 22 August 1984
18 July 1985		4.0%	4.0%	4.0%
4.0%				
15 September 1987 16 September 1987		15 September 1987 16 September 1987	15 September 1987 16 September 1987	15 September 1987 16 September 1987
		2.5%	2.5%	2.5%
2.5%	27 February 1992	2.5%	26 February 1992 27 February 1992	26 February 1992 27 February 1992
	2.5%		4.0%	4.0%
		Present Day		

## An explanation...

Division 43 or Capital Allowance Deductions are based on the historical cost of the building excluding the cost of all 'plant' and non-eligible items.

Tax Ruling 97/25 states that in the case where actual costs are not available, the Australian Taxation Office will accept the estimates of a Quantity Surveyor.

The Division 43 write off allowance available on a property is triggered by the date of commencement of the capital improvement works and the use of the building.

All income producing buildings, refurbishments, extensions and fit-outs which have commenced construction within the correct dates as outlined in the above table will qualify for this Division 43 write off allowance.

## Reforming the capital allowances system: effects on major property types post 01/07/2000

PREPARED BY:

BMT & ASSOC RESEARCH DIVISION

The second stage of the Government's *Ralph Review Reforms of Business Taxation* includes a further change to the method used to calculate depreciation for plant and equipment. This second stage of changes focus on the introduction of a low-value pool for assets costing less than \$1,000 and applying a rate of 18.75% Diminishing Value in year one and a rate of 37.5% every year thereafter.

Further changes to legislation affecting depreciation allowances have been proposed to take effect on 1 July 2001.

These changes specifically focus on the Division 43 Write Off Allowance of a building's structure to be based on its effective life.

Further detail on this new treatment of the construction write off allowances is currently being drafted and BMT & ASSOC will keep you informed when the details become available.

*We note that this document is BMT & ASSOC interpretation of the Government's response to the Ralph review at 1/3/01.*

*Should you require any additional information or have further questions on the material presented above please contact a BMT & ASSOC representative at your nearest office.*

The following tables outline the changes to four alternate building types:

THREE BEDROOM HOUSE – PURCHASE PRICE \$280,000			
YEARS	ACQUISITION DATE		
	27/2/92 - 21/9/99	21/9/99 - 31/6/00	POST 1/7/00
1	10,700	9,200	8,000
2	7,000	5,500	8,400
3	6,200	4,900	7,100
4	5,500	4,500	6,500
5	4,700	4,100	5,200
<b>TOTAL</b>	<b>34,100</b>	<b>28,200</b>	<b>35,200</b>

TWO BEDROOM UNIT – PURCHASE PRICE \$365,000			
YEARS	ACQUISITION DATE		
	27/2/92 - 21/9/99	21/9/99 - 31/6/00	POST 1/7/00
1	18,000	12,500	9,800
2	11,900	9,500	13,000
3	10,200	9,000	12,300
4	9,500	8,200	10,000
5	8,700	8,000	9,350
<b>TOTAL</b>	<b>58,300</b>	<b>47,200</b>	<b>54,450</b>

SMALL RETAIL BUILDING – PURCHASE PRICE \$2,500,000			
YEARS	ACQUISITION DATE		
	27/2/92 - 21/9/99	21/9/99 - 31/6/00	POST 1/7/00
1	255,000	200,000	190,000
2	175,000	142,000	165,000
3	160,000	110,000	120,000
4	150,000	89,000	98,000
5	145,000	80,000	89,000
<b>TOTAL</b>	<b>885,000</b>	<b>621,000</b>	<b>662,000</b>

MEDIUM COMMERCIAL BUILDING – PURCHASE PRICE \$7,500,000			
YEARS	ACQUISITION DATE		
	27/2/92 - 21/9/99	21/9/99 - 31/6/00	POST 1/7/00
1	525,000	368,500	330,000
2	370,000	272,500	285,000
3	302,500	241,000	263,000
4	260,000	220,000	234,000
5	220,000	202,000	221,000
<b>TOTAL</b>	<b>1,677,500</b>	<b>1,304,000</b>	<b>1,333,000</b>

## Construction Costs per Square Metre

Construction Type	\$/m <sup>2</sup> Rates			
<b>Commercial (Shell and Core)</b>	<b>Medium Standard \$/m<sup>2</sup></b>			
Fully Serviced Low Rise Office	\$	1,350.00		
Fully Serviced Medium - High Rise Office	\$	1,950.00		
Fully Serviced High Rise Office	\$	2,550.00		
<b>Industrial</b>	<b>Medium Standard \$/m<sup>2</sup></b>			
Single Storey Warehouse Low Bay	\$	450.00		
Single Storey Warehouse High Bay	\$	550.00		
Multi Storey Warehouse	\$	950.00		
<b>Retail - Suburban</b>	<b>Medium Standard \$/m<sup>2</sup></b>	<b>High Standard \$/m<sup>2</sup></b>		
Single Storey Shops	\$	450.00	\$ 600.00	
Two Storey Shops	\$	550.00	\$ 700.00	
Single Storey Supermarket	\$	1,000.00	\$ 1,250.00	
Shopping Centre	\$	900.00	\$ 1,150.00	
<b>Residential</b>	<b>Medium Standard \$/m<sup>2</sup></b>	<b>High Standard \$/m<sup>2</sup></b>	<b>Prestige Standard \$/m<sup>2</sup></b>	
Single House	\$	750.00	\$ 950.00	\$ 1,500.00
Town Houses	\$	1,050.00	\$ 1,200.00	\$ 1,750.00
Residential - Walk Up	\$	1,150.00	\$ 1,300.00	\$ 1,850.00
Residential - Medium Rise	\$	1,450.00	\$ 1,950.00	\$ 2,400.00
Residential - High Rise	\$	1,850.00	\$ 2,350.00	\$ 2,850.00

NB: Rates are based on professional opinion, the above mentioned square metre rates are indicative of typical costs for similar developments. Rates do not include for land, demolition, sloping sites, foundation problems, unusual shape, higher wall to floor ratios, external works and services, professional fees and equipment. The above mentioned rates are indicative and are only suitable for initial feasibility studies. BMT & ASSOC recommend that further costings be undertaken in order to accurately access the cost of a proposed development.