



ROYAL MALAYSIAN CUSTOMS

MALAYSIA GOODS AND SERVICES TAX (GST) GUIDE

RELIEF ON SECOND-HAND GOODS (MARGIN SCHEME) (DRAFT)

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MARGIN SCHEME

1. INTRODUCTION

This Industry Guide is prepared to assist you in understanding the Goods and Services Tax and the operation of Margin Scheme.

1.1. Overview of Goods and Services Tax (GST)

Goods and Services Tax (GST) is a multi-stage tax on domestic consumption. GST is charged on all taxable supplies of goods and services in Malaysia except those specifically exempted. GST is also charged on importation of goods and services into Malaysia.

Payment of tax is made in stages by the intermediaries in the production and distribution process. Although the tax would be paid throughout the production and distribution chain, it is ultimately passed on to the final consumer. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements

In Malaysia, a person who is registered under the Goods and Services Tax Act 20XX is known as “registered person”. A registered person is required to charge output tax on his taxable supply of goods and services made to his customers. He is allowed to claim input tax credit on any GST incurred on his purchases which are inputs to his business. Thus, this mechanism would avoid double taxation and only the value added at each stage is taxed.

2. OVERVIEW OF THE MARGIN SCHEME

2.1 GST is normally due on the full value of goods sold. The margin scheme allows a GST Margin Scheme registered person (GST MS registered person) who meets all the conditions to calculate GST on the *margin* i.e. the difference between the price at which the goods were obtained and their selling price. If no margin is made (because the purchase price exceeds the selling price) then no GST is payable.

2.2 A registered person who does not wish to use the margin scheme for eligible goods must account for GST in the normal way. Under the margin scheme, there is no input tax to claim on the purchase (input tax not claimable) and the GST must be charged on the ‘margin’. If an eligible item is sold but all the conditions of the scheme cannot be met (e.g. record keeping, invoicing and accounting requirements) the margin

scheme cannot be used and the sale must be dealt with outside the scheme in the normal way, accounting for GST on the full selling price.

- 2.3 Businesses buying and selling goods can usually recover the GST they are charged on their stock as input tax. But if you obtain most of your stock from members of the public who are not GST registered or from other dealers using the Margin Scheme, you will have no GST to recover. The Margin Scheme means that you still charge GST but only on the value you add to the goods or profit you made on selling the same goods. By calculating GST on the margin, the scheme therefore avoids double taxation as second-hand goods re-enter the economic cycle.

3. ELIGIBLE PERSONS FOR THE MARGIN SCHEME

Any taxable person involved in the business of buying and selling second-hand motor vehicles or real properties is eligible to apply for the scheme subject to approval given by Royal Malaysia Customs (RMC).

4. GOODS QUALIFYING UNDER THE MARGIN SCHEME

The scheme is only applicable for the following goods:-

- i. second-hand motor vehicles excluding motor vehicles acquired during the period where no sale tax was chargeable; and
- ii. second-hand real properties other than those exempted under the Goods and Services Tax (Exempt Order) 20XX acquired after GST implementation date.

4.1. What is the definition of “second-hand motor vehicles”?

For GST purposes, second-hand motor vehicle is any used motorized vehicle which has been registered in Malaysia. This definition, however, does not include foreign registered motor vehicles.

Motor vehicles would include the following:-

- i. motor vehicles designed for the transport of persons such as cars, vans, motorcycles, ambulances, buses;
- ii. motor vehicles designed for the transport of goods such as lorries, vans, trucks;

- iii. motor vehicles other than those principally designed for the transport of persons or goods, i.e. special purpose motor vehicles such as crane lorries, concrete–mixer lorries, road sweeper lorries, fire-fighting vehicles, trailers, tractors, forklifts.

This list is not exhaustive.

4.2. What is “real property”?

For the purpose of margin scheme real property includes all real properties including land and building but excludes any residential property.

4.3. Transactions that qualify the goods to enter the scheme

Eligible goods can qualify to use margin scheme after the first and **subsequent sales**. Goods which were not subject to sales tax before GST era can qualify under this scheme if the first sale takes place within GST era. Examples of goods that fall under this category are real property and tractors.

5. WHAT ARE THE *CONDITIONS* IMPOSED UNDER THE SCHEME?

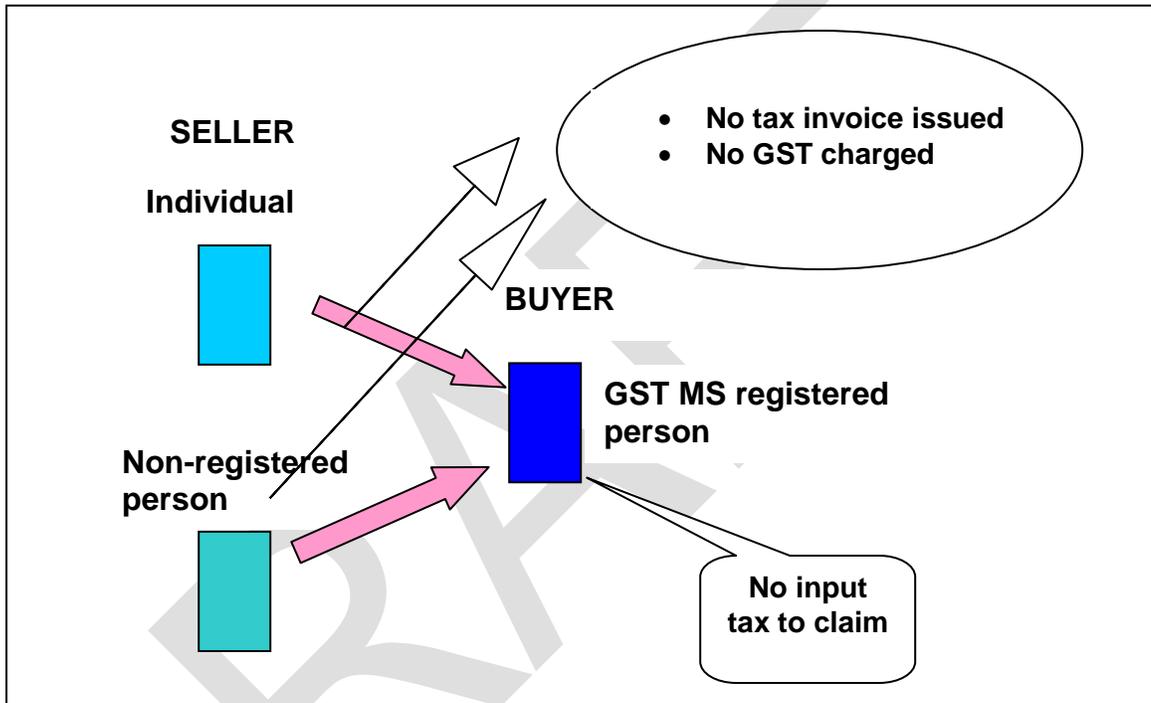
- 5.1. First, you must be a GST registered person and apply for approval to register under margin scheme (GST MS registered person) from the Director General (DG).
 - i. the goods must be previously purchased from an individual or a non-GST dealer (no GST was incurred on your purchase); or the goods was previously bought from a GST MS registered person who use Margin Scheme; or input tax blocked goods purchased from GST registered person
 - ii. the goods purchased and sold under the margin scheme must be substantially the same goods. However, repair, alterations, refurbishment and renovations which does not affect the nature and the essential character of the goods is allowed.
 - iii. GST should be accounted on the margin between the selling price and the purchase price
 - iv. no tax invoice to be issued under this scheme and hence no input tax can be claimed

- v. you must meet the record keeping requirements of the scheme (please refer paragraph 9) for further detail.

6. HOW MARGIN SCHEME OPERATES

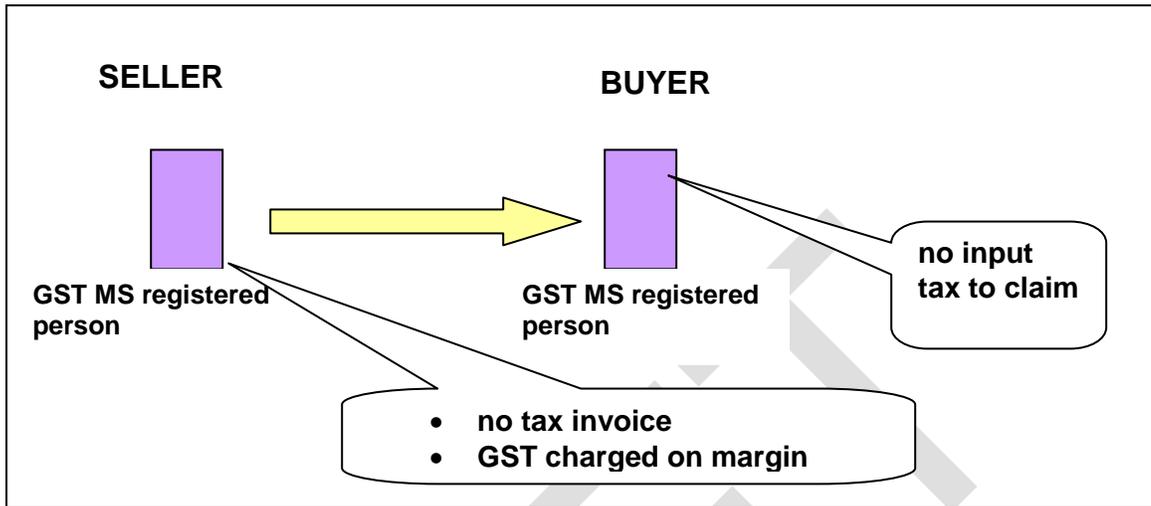
6.1. Acquisition by GST margin scheme registered person

Scenario 1



Under scenario 1, a buyer who is GST MS registered person can purchase goods from individual or non-registered person. No tax invoice is issued by the seller (i.e. GST is not chargeable on the sale). No input tax to be claimed by the buyer. The buyer will then have the choice whether he wants to apply the margin scheme or not when he sells the goods.

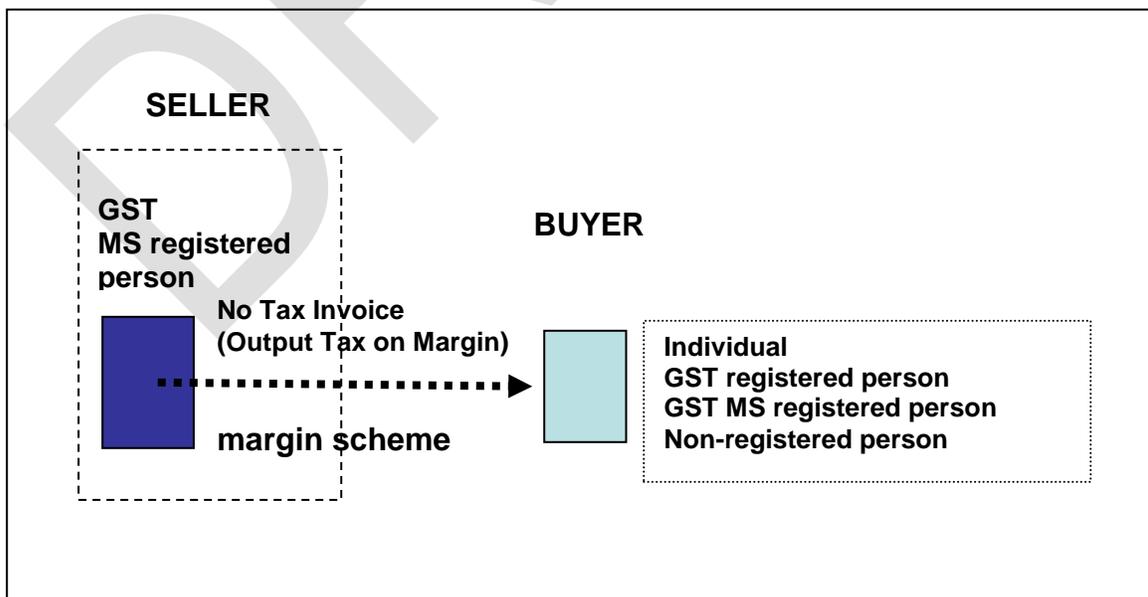
Scenario 2



Under scenario 2, a buyer who is GST MS registered person can also purchase goods from a GST MS registered person. No tax invoice is issued by the seller but GST is chargeable on the margin. No input tax to be claimed by the buyer although GST is imposed on the margin. The buyer will then have the choice whether he wants to apply the margin scheme or not when he sells the goods.

6.2 Transaction Using Margin Scheme (output tax)

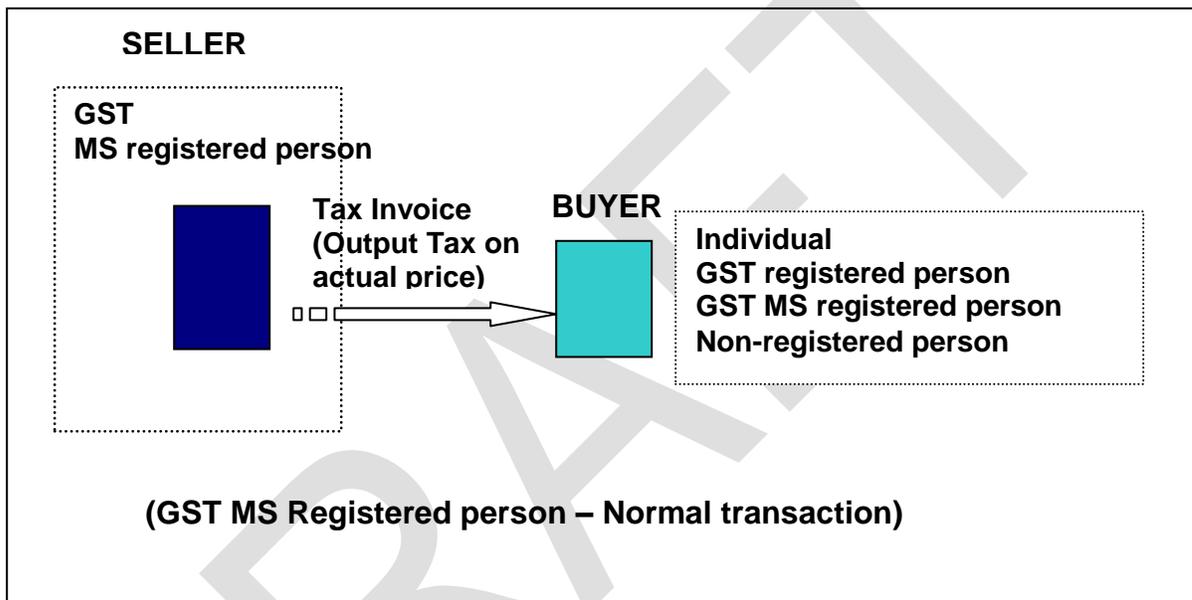
Scenario 3



Under scenario 3, when a GST MS registered person sells the goods using margin scheme to an individual, non-registered person, GST MS registered person or GST registered person he will issue a **normal invoice** and account for output tax based on the margin. However the buyer cannot claim the input tax.

6.3. GST MS registered person using normal transactions (output tax)

Scenario 5



Under scenario 4, when a GST MS registered person sells the goods to buyers using normal transaction, tax invoice has to be issued and output tax to be accounted based on the **actual sale value**.

7. TRANSACTION VALUE

Under the margin scheme, the output tax charged is based on the difference between the selling price and purchase price (margin). For transaction involving connected persons, valuation may be required using an approved valuation method by the Director General. For instance in the case of real property valuation should be conducted by a professional valuer, who is registered or licensed to carry out property valuation under the laws. The valuation must comply with all requirements determined in writing by the DG.

8. CALCULATION OF OUTPUT TAX UNDER THE MARGIN SCHEME

8.1. Simple illustration on the calculation of output tax (Margin is inclusive of GST)

Example for second-hand car

Abby car dealer who is GST MS registered person bought a used car from Chan second-hand car dealer, who is not a GST registered person, at a price of RM45,000. Abby then sells the used car to an individual, Mr. Pillai, for RM50,000 using the margin scheme.

Selling Price	RM50,000 (inclusive of GST)
Cost Price	RM45,000
Gross Margin	RM(50,000 – 45,000) =RM5,000
GST	$4/104 \times \text{RM}5,000$ = RM192.31 (not to be shown on invoice)
Value of the car	Selling price less GST = RM(50,000 - 192.31) = RM49,807.69
Output tax	RM192.31
Input tax	RM0.00 (no input tax claimable as the seller is not allowed to issue tax invoice)

9. RECORDS

To use the Margin Scheme you must keep records in sufficient detail. If you do not comply, you cannot use the Margin Scheme and will have to pay GST on the full selling price. Records to be maintained and kept as follows:

9.1 Purchase details

- i. stock book number;
- ii. date of transaction;
- iii. purchase invoice number;
- iv. seller's name and address;
- v. vehicle registration, engine and chassis numbers;
- vi. model and make;
- vii. total purchase price.

9.2 Sales details

- i. date of sale;

- ii. sales invoice number;
- iii. buyer's name and address;
- iv. total sale price;
- v. vehicle registration, engine and chassis numbers;
- vi. model and make.

9.3 Accounting details

- i. purchase price;
- ii. selling price;
- iii. margin in sale;
- iv. tax rate on the date of the sale;
- v. GST due.

For your own accounting purposes, you can also include other items in your book of account, but details listed above must always be shown. In addition to that, your log book must always be **up-to-date** and the records must be kept for **7 years**.

10. BUYING A SECOND-HAND GOODS FROM AN INDIVIDUAL/ NON-REGISTERED PERSON

10.1 When you buy a second-hand motor vehicle from an individual or non-registered person,

You must maintain a log book showing:-

- i. seller's name and address;
- ii. stock reference number (in numerical order);
- iii. date of acquisition (purchase);
- iv. particulars of car such as registration number, make, model, vehicle's engine and chassis number;
- v. total purchase price.

The seller must sign and state the date of sale on the payment voucher, certifying that he is the seller of the car at the stated price

10.2 When you buy a real property from an individual or non-registered person, you must keep the following records on the transactions.

Log book showing the following:-

- i. your name and address;
- ii. seller's name and address;
- iii. invoice number , if any;
- iv. date of acquisition ;
- v. purchase price.

Sales and Purchase Agreement (S & P)

11. SELLING SECOND-HAND GOODS

11.1 When you sell a motor vehicle using the margin scheme, you must maintain the following records;

The **sales invoice** issued under the Margin Scheme must show the following:-

- i. your name and address;
- ii. GST registration number and Margin Scheme Number;
- iii. buyer's name and address;
- iv. stock number;
- v. invoice number;
- vi. date of invoice;
- vii. particulars of car such as registration number, make, model, vehicle's engine and chassis numbers;
- viii. total sale price;
- ix. your signature and date on the invoice certifying on it that **"input tax deduction has not been and will not be claimed by me in respect of the vehicle sold in the invoice"**;
- x. statement showing that **"this is not a tax invoice"** in that sale invoice.

The sample of the sales invoice is shown in **Appendix 1**.

11.2 When you sell a property, you must maintain the following records;

The **sales invoice** issued under the Margin Scheme must show the following:-

- i. your name and address
- ii. GST registration number and Margin Scheme Number
- iii. buyer's name and address
- iv. invoice number
- v. date of invoice
- vi. total sale price
- vii. your signature and date on the invoice certifying on it that **"input tax deduction has not been and will not be claimed by me in respect of the property sold in the invoice"**.

Sales and purchase Agreement (S & P)

12. HIRE PURCHASE TRANSACTION USING MARGIN SCHEME

This is a transaction whereby a buyer of a car or property obtains financial assistance from a financial institution; the loan will form a substantial portion of the purchase price while the rest will be paid by the buyer. Usually, the buyer will place some deposit before buying the goods. This means that the deposit may become part of the payment made for buying the goods. In other words, the deposit is not refundable if it becomes part of the payment and hence it is subject to GST. The calculation of GST chargeable and payable is shown in the example below:

Example

If a buyer buys a second-hand car from you (the car that you have bought from an individual), you may use the Margin Scheme when selling the car since GST was not charged by the owner previously.

The buyer placed a deposit (as his down payment) of RM10,000.00 for the purchase of the second-hand car. You will issue a receipt to him for the down payment. Your selling price is inclusive of the down payment. The down payment is part of the payment and hence it is subject to GST. GST is accounted based on the total amount of selling price (i.e. down payment + loan). However, the issue here is that how GST should be accounted especially when the down payment is paid in different taxable period from the loan approved by a financial institution. In such a case, the amount of GST accountable would depend on whether the amount of the down payment is greater than the amount of the margin or not.

Below is the illustration of how output tax should be accounted.

	Scenario 1 Down payment > Margin	Scenario 2 Down payment < Margin
Selling Price	RM50,000 (inclusive of GST)	RM50,000 (inclusive of GST)
Down payment	RM10,000	RM10,000
Loan	RM40,000	RM40,000
Cost Price to dealer	RM45,000	RM35,000
Margin	RM(50,000 – 45,000) =RM5,000.00	RM(50,000 – 35,000) =RM15,000.00
GST chargeable on the sale	$4/104 \times \text{RM}5,000$ =RM192.31	$4/104 \times \text{RM}15,000$ =RM576.92
GST on down payment	$4/104 \times \text{RM}10,000$ =RM384.62	$4/104 \times \text{RM}10,000$ =RM384.62
GST to be accounted	RM192.31 This amount will be	RM576.92 This amount will be accounted

	Scenario 1 Down payment > Margin	Scenario 2 Down payment < Margin
	accounted wholly from down payment as GST chargeable on the sale is limited to RM192.31 only.	partly from down payment (RM384.62) and partly from loan (RM192.30)

Under scenario 1, the whole amount of output tax chargeable is RM192.31. Since the down payment is greater than the margin, the whole amount of output tax has to be taken out from the down payment. This output tax would need to be declared in GST return for the taxable period where down payment is received.

Under scenario 2, the whole amount of output tax chargeable is RM576.92. Since the down payment is smaller than the margin, part of the amount of output tax has to be taken out from the down payment, i.e. RM384.62. This amount would need to be declared first, in GST return for the taxable period where down payment is received. The remaining of the output tax will be taken out from the loan, i.e. RM192.30. This amount would need to be declared in GST return for the taxable period where the loan is approved.

For both scenarios, a normal invoice is issued to the financial institution.

13. FREQUENTLY ASKED QUESTION

13.1. Do I have to account for GST if I sell used motor vehicles at a loss?

No, GST need not be charged if the sale is at a loss.

13.2. How does the Margin Scheme affect GST on my overheads?

You can claim GST on all your business overheads such as office rental and utilities. But you must not add any of these costs to the purchase price of the goods you sell using the scheme.

13.3. My supplier charged me GST on parts that I replaced on used motor vehicles purchased under Margin Scheme. Can I claim the GST incurred as my ITC?

Yes, you can claim the input tax incurred.

13.4. What are the implications under the margin scheme?

The seller only accounts for GST on the margin but he cannot claim the GST embedded in the purchase price.

13.5. Can I impute incidental expenses incurred on the acquisition of real property such as legal fees, stamp duty or any other related expenses as part of my purchase cost when I dispose the property?

Incidental expenses cannot be included as part of your purchase cost. Apart from that, any costs incurred by you in developing the real property shall not be included in the consideration for acquiring the real property, but it should be computed as part of your margin.

Ahmad Developers bought a commercial building at the price of RM2 million from an individual and incurred additional costs of RM1 million in refurbishing the building. Later he sold the property for RM5 million. The margin is RM3 million (RM5 million – RM2 million). GST should be payable on this margin of RM3 million which amounts to RM115,384.61 ($4/104 \times \text{RM3 million}$). Ahmad Developers however, can claim GST incurred on the costs of refurbishment separately as his input tax.

14. FURTHER INFORMATION

If you require any further information regarding GST, please contact our officer at any of our GST office or call toll free line No. 1800 XX XXXX. You can also visit our website at <http://www.customs.gov.my>.

SAMPLE INVOICE

SYARIKAT ARBUS MOTOR SDN.BHD

Sales Invoice

GST No.: WP-12345-07
Margin Scheme No.: PBT0078050
Stock No : 11/100
Invoice No : Z121212
Date : 10.11.2013

**Fadilah Mahfuz,
No.88, Precint 9,
62550 Putrajaya,**

No.	Description	Amount (RM)
1.	Car Reg. No : SS1163 F Make/Model : Toyota Camry Vehicle engine/chassis No: 111129J/771177Y	RM80, 000.00

(.....)
Authorized Signature

Note: "input tax deduction has not been and will not be claimed by me in respect of the vehicle sold in the invoice".