ROYAL MALAYSIAN CUSTOMS

GOODS AND SERVICES TAX

GUIDE
ON
RELIEF FOR SECOND-HAND GOODS (MARGIN SCHEME)

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INTRODUCTION

1. This industry guide is prepared to assist businesses in understanding matters with regards to GST treatment on Relief for Second-hand Goods (Margin Scheme).

Overview of Goods and Services Tax (GST)

2. 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.

3. 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, only the value added at each stage is taxed thus avoiding double taxation.

4. In Malaysia, a person who is registered under the Goods and Services Tax Act 20XX is known as a “registered person”. A registered person is required to charge GST (output tax) on his taxable supply of goods and services made to his customers. He is allowed to claim back any GST incurred on his purchases (input tax) which are inputs to his business. Therefore, the tax itself is not a cost to the intermediaries and does not appear as an expense item in their financial statements.

GENERAL OPERATIONS OF THE INDUSTRY

Margin Scheme

5. 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 and charge GST on the ***margin*** i.e. the difference between the price at which the goods were obtained and the selling price. If no margin is made (because the purchase price exceeds the selling price) then no GST is charged and payable.

6. For the purpose of GST, margin under this scheme means the difference between selling price and purchase price. If there is any value being added to the eligible goods such as cost for repairing, this cost is part of the margin other than profit. In other words, the value added must be included in the selling price and not the purchase price.

7. Businesses buying and selling goods can usually recover the GST they are charged on their stock as input tax. But if they obtain most of their stock from members of the public who are not GST registered or from other dealers using the Margin Scheme, they will have no GST to recover. The Margin Scheme means that GST is still charged but only on the value being added to the goods or profit margin 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.

8. 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 be claimed on the purchase (input tax not claimable) and the GST is allowed to be charged on the 'margin'. However, 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.

ELIGIBLE PERSONS FOR THE MARGIN SCHEME

9. Any taxable person involved in the business of buying and selling second-hand motor vehicles is eligible to apply for the scheme subject to approval given by the Royal Malaysian Customs Department (RMCD).

GOODS QUALIFYING UNDER THE MARGIN SCHEME

10. The scheme is applicable for used motor vehicles where the approved person under this scheme bought the motor vehicles from unregistered person including individuals. This scheme is also applicable for used motor vehicles which were

initially subject to sales tax before GST comes into force to be transacted in GST era.

Definition of "used motor vehicle"

11. "Motor vehicle" means a mechanically propelled vehicle intended or adapted for use on roads.

12. For GST purposes, used motor vehicle is any used motorised vehicle which has been registered with the Road Transport Department in Malaysia. This definition, however, does not include foreign registered motor vehicles.

13. Motor vehicles would include the following:-

(a) motor vehicles designed for the transport of persons such as cars, vans, motorcycles, ambulances, buses;

(b) motor vehicles designed for the transport of goods such as lorries, vans, trucks;

(c) 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.

Transactions that qualify the goods to enter the scheme

14. Motor vehicles can qualify to use the 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 motorcycles with certain c.c. and tractors.

CONDITIONS IMPOSED UNDER THE SCHEME

15. Any person may apply for this scheme subject to the following conditions:

(a) he must be a GST registered person.

(b) the goods must be previously purchased from an individual or a non-GST dealer (no GST was incurred on the purchase); or the goods were previously bought from a GST MS registered person who uses the Margin Scheme; or input tax blocked goods purchased from GST registered person.

(c) the goods purchased and sold under the margin scheme must be substantially the same goods. However, repair, alterations, refurbishment and renovations which do not affect the nature and the essential character of the goods are allowed.

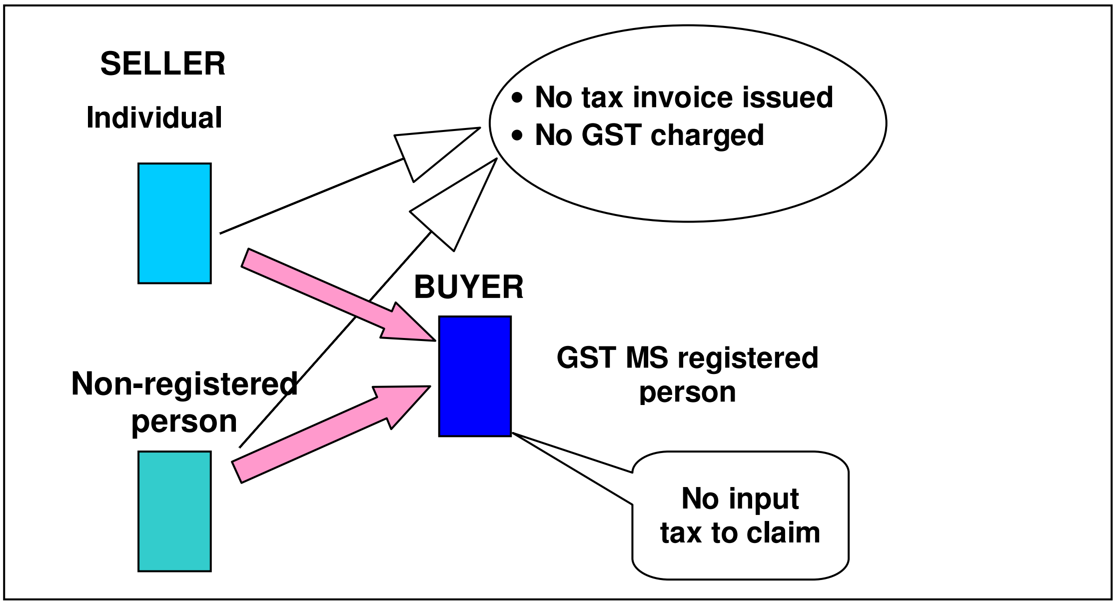
(d) GST must be accounted on the margin between the selling price and the purchase price.

(e) no tax invoice to be issued by the approved person (supplier) under this scheme and hence no input tax to be claimed by the purchaser. He must meet the record keeping requirements of the scheme

HOW MARGIN SCHEME OPERATES

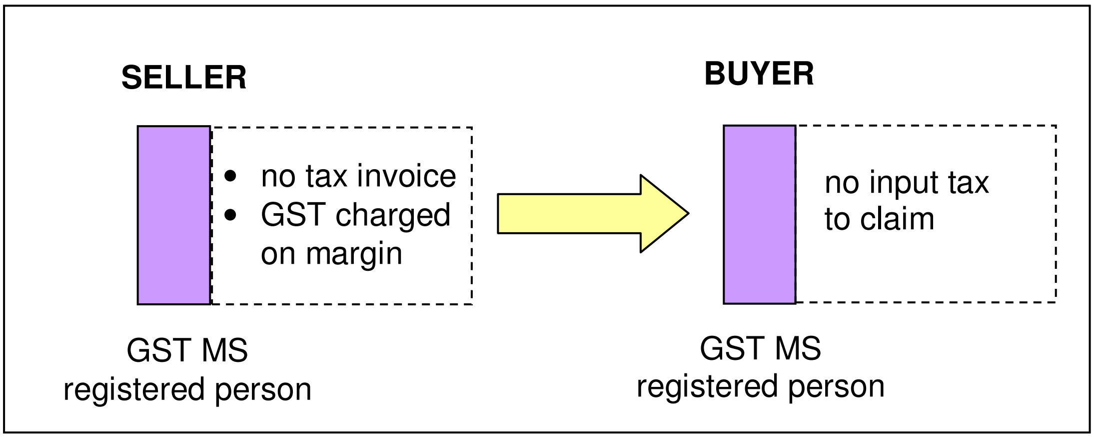
Acquisition by GST Margin Scheme Registered Person

Scenario 1



16. **Under scenario 1**, a buyer who is a 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 is to be claimed by the buyer. The buyer will then have the choice of whether to apply the margin scheme or not when he sells the goods.

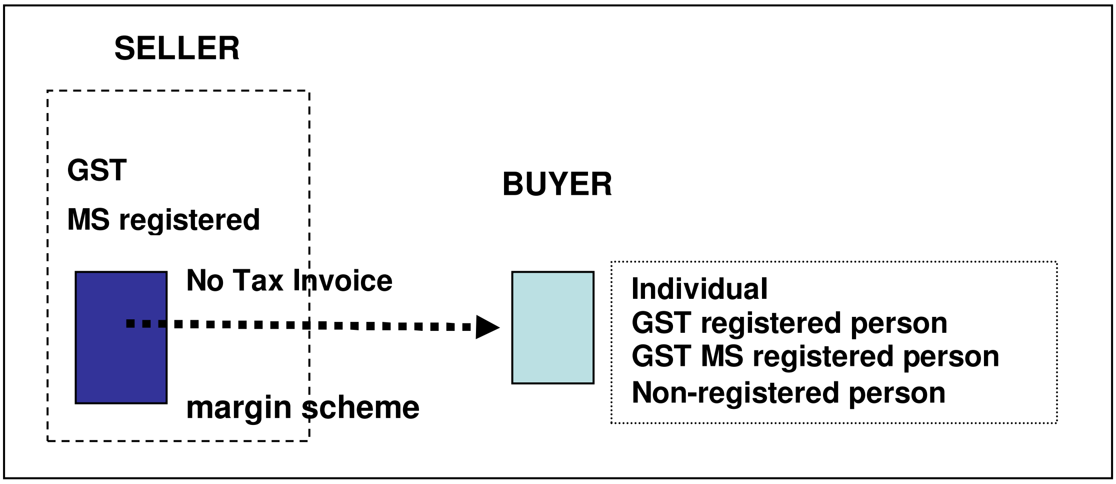
Scenario 2:



17. **Under scenario 2**, a buyer who is GST MS registered person can also purchase second hand motor vehicle 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 (but only 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.

Transaction Using Margin Scheme (output tax)

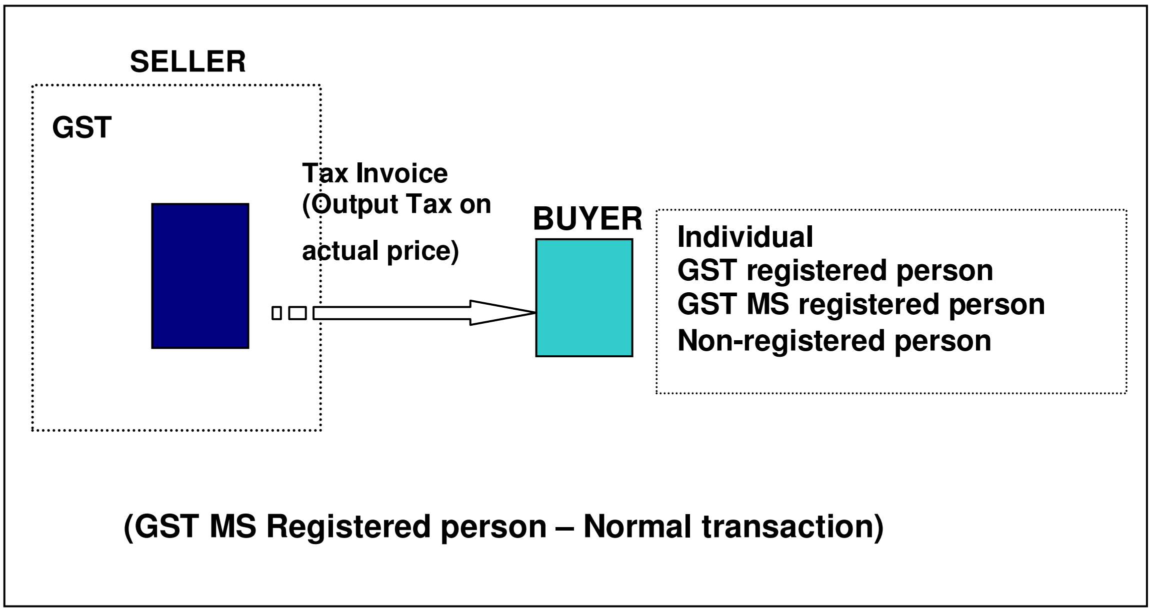
Scenario 3:



18. **Under scenario 3,** when a GST MS registered person sells the motor vehicle 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. The output tax is inclusive in the margin. **However the buyer cannot claim the tax as his input tax credit.**

GST MS Registered Person Using Normal Transactions (Output Tax)

Scenario 4:



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

TRANSACTION INVOLIVING CONNECTED PERSONS

20. Under the margin scheme, the output tax charged is based on the difference between the selling price and purchase price (margin). However, for transaction involving connected persons, the selling price would be based on open market value.

CALCULATION AND ACCOUNTING FOR OUTPUT TAX

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

Example 1:

Abby car dealer who is a 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
Cost Price	RM45,000
Gross Margin	RM(50,000 – 45,000) =RM5,000
GST	6/106 x RM5,000 = RM283.00 (not to be shown on invoice)
Value of the car	Selling price less GST = RM(50,000 – 283.00) = RM49,717.00
Output tax	RM283.00
Input tax	RM0.00 (no input tax claimable by the buyer as the seller is not allowed to issue tax invoice)

When to account for output tax

22. Any MS registered person must account for output tax on the supply that he made under the Margin Scheme at the earlier of the following times:

(a) when the goods are removed or made available;

(b) when an invoice is issued; or

(c) when a payment is received by him.

RECORDS

23. Generally, a taxable person under GST is required to keep records on business transactions. Records are documents which include all books of account or relevant computer print-outs if a computer is used, as well as supporting documents. If the record is in an electronically readable form, a manual to the software must be

available. For further details, please refer to *Guide on Tax Invoice and Record Keeping*.

24. A business selling goods under the Margin Scheme, in addition to the above requirement, must keep the purchase invoice and a copy of a sale invoice, together with a stock book or similar record.

25. The stock book or similar records that need to be maintained and kept is as follows:

(a) 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.

(b) 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.

(c) Accounting details

- (i) purchase price;
- (ii) selling price;
- (iii) margin in sale;

(iv) tax rate on the date of the sale;

(v) GST due.

26. For accounting purposes, the approved person is also allowed to include other items in the stock book or similar record but details listed above must always be shown. In addition to that, the stock book or similar record must always be ***up-to-date*** and the records must be kept for ***7 years.***

BUYING A SECOND-HAND MOTOR VEHICLE FROM AN INDIVIDUAL/ NON-REGISTERED PERSON

27. When buying a second-hand motor vehicle from an individual or non-registered person. A stock book must be maintained showing:-

(a) seller's name and address;

(b) stock reference number (in numerical order);

(c) date of acquisition (purchase);

(d) particulars of car such as registration number, make, model, vehicle's engine and chassis number;

(e) total purchase price.

28. 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.

SELLING USED MOTOR VEHICLES

29. When any MS registered person sells a used motor vehicle using the margin scheme, he must maintain the following records;

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

(i) seller's 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) seller's signature and date on the invoice certifying on it that **"input tax deduction has not been and will not be claimed in respect of the vehicle sold in the invoice"**;

(x) statement showing that "this is not a tax invoice" in that sale invoice.

HIRE PURCHASE TRANSACTION USING MARGIN SCHEME

30. This is a transaction whereby a buyer of a car 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 1:

If a buyer buys a second-hand car from you (the car that you have bought from an individual who is not registered under GST), 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 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 periods 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.*

Figure 1: 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	6/106 x RM5,000 = RM283.00	6/106 x RM15,000 = RM849.05
GST on down payment	6/106 x RM10,000 = RM566.03	6/106 x RM10,000 = RM566.03
GST to be accounted	RM283.00 This amount will be accounted wholly from down payment as GST chargeable on the sale is limited to RM283.00 only.	RM849.05 This amount will be accounted partly from down payment (RM566.03) and partly from loan (RM283.02)

31. **Under scenario 1**, the whole amount of output tax chargeable is RM283.00. 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.

32. **Under scenario 2**, the whole amount of output tax chargeable is RM849.05. 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. RM566.03. This amount would need to be declared first, in GST return of the taxable period which the down payment was received. The remaining of the output tax will be taken out from the loan, i.e. RM283.02. This amount would need to be declared in GST return for the taxable period where the loan is approved.

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

FREQUENTLY ASKED QUESTIONS

Charging Output Tax

Q1: Do I have to account for GST if I sell used motor vehicles at a loss?

A1: No, GST need not be charged if the sale is at a loss.

Q2: What are the implications under the margin scheme?

A2: The seller only accounts for GST on the margin (GST-inclusive) but he cannot claim the GST embedded in the purchase price.

Claiming Input Tax

Q3: How does the Margin Scheme affect GST on my overheads?

A3: 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.

Q4: 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?

A4: Yes, you can claim the input tax incurred.

FEEDBACK AND COMMENTS

34. Any feedback or comments will be greatly appreciated. Please email your feedbacks or comments to either Mohd Hisham B. Mohd Nor (*m_hisham.nor@customs.gov.my*) or Aminul Izmeer B. Mohd Sohaimi (*izmeer.msohaimi@customs.gov.my*).

FURTHER ASSISTANCE AND INFORMATION

35. Further information can be obtained from:

(a) GST Website : *www.gst.customs.gov.my*

GST Phone : 03-88822111

(b) Customs Call Centre :

- Tel : 03- 7806 7200/ 1-300-888-500
- Fax : 03- 7806 7599
- E-mail : *ccc@customs.gov.my*