



# **ROYAL MALAYSIAN CUSTOMS**

## **GOODS AND SERVICES TAX**

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

## **Publication**

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The Guide on Relief for Second-Hand Goods (Margin Scheme) as at 11 November 2013 is withdrawn and replaced by the Guide on Second-Hand Goods (Margin Scheme) revised as at 2 November 2015.

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## INTRODUCTION

1. This industry guide is prepared to assist businesses in understanding matters in relation 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 2014 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 charged on the full value of goods sold. However, the margin scheme allows an approved person as defined under regulation 75 of the Goods and Services Tax Regulation 2014 (GSTR) who meets all the conditions imposed under regulation 77 of the GSTR 2014 to calculate and charge GST on the **margin** i.e. the difference between the price at which the goods are supplied (selling price) and the price at which the goods were acquired (purchase price). If there is no margin (because the purchase price exceeds or equals to the selling price), then no GST is imposed for such supply.

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 of repairing and refurbishment, these costs become part of the margin besides profit. In other words, the value added must be included in the selling price and not in the purchase price.

7. Businesses can usually recover the GST charged on their acquisition as their input tax credit. However, if they obtain most of their stocks from members of the public or non-GST registered persons or from other dealers using the Margin Scheme, they will not be able to recover any GST. GST is still imposed under the Margin Scheme but only chargeable on the value added to the goods or margin made when selling the same goods. Since GST is charged on the margin, the scheme therefore avoids double taxation as second-hand goods re-enter the economic cycle.

8. Under the Margin Scheme, there is no input tax to be claimed on the purchase. If an eligible goods is sold but the conditions of the scheme have not been complied (e.g. record keeping, invoicing and accounting requirements), the Margin Scheme will be revoked and the sales must be dealt with outside the scheme in the normal way where tax has to be charged at a standard rate and accounted for on the full value of the goods sold.

## **ELIGIBLE PERSONS FOR THE MARGIN SCHEME**

9. Regulation 77(1) of the GSTR 2014 stated that subject to subregulation (2), a taxable person is eligible to apply for the scheme to the Director General if he is:

- (a) registered under section 20 of the GST Act 2014, and
- (b) in the business of buying and selling second-hand motor vehicles licensed under the Second-Hand Dealers Act 1946.

## **GOODS QUALIFYING UNDER THE MARGIN SCHEME**

10. The Margin Scheme is only applicable for used motor vehicles as laid out in Regulation 76 of the GSTR 2014. The acquisition of the motor vehicles by the approved person is from the following status of sellers:

- (a) a non-GST registered person including individual (no GST incurred on the purchase);
- (b) an approved person under MS who uses the Margin Scheme (GST was charged on the margin); or
- (c) a GST registered person who sells blocked input tax goods (no GST incurred on the purchase).

**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 vehicles 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 include the following:-

- (a) motor vehicles designed for the transport of persons such as cars, vans, motorcycles, ambulances, and buses;
- (b) motor vehicles designed for the transport of goods such as lorries, vans, and 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, and forklifts.

This list is not exhaustive.

**Transactions to qualify goods under the scheme**

14. Motor vehicles can qualify for margin scheme after the first and subsequent sales. Used motor vehicles which were initially subject to sales tax before GST comes into force are also qualified for margin scheme. Goods which were not subjected to sales tax before the GST era can qualify under this scheme if the first sales take place

within the GST era. Examples of goods that fall under this category are motorcycles with certain cubic centimeters (c.c.) and tractors.

### **CONDITIONS IMPOSED UNDER THE SCHEME**

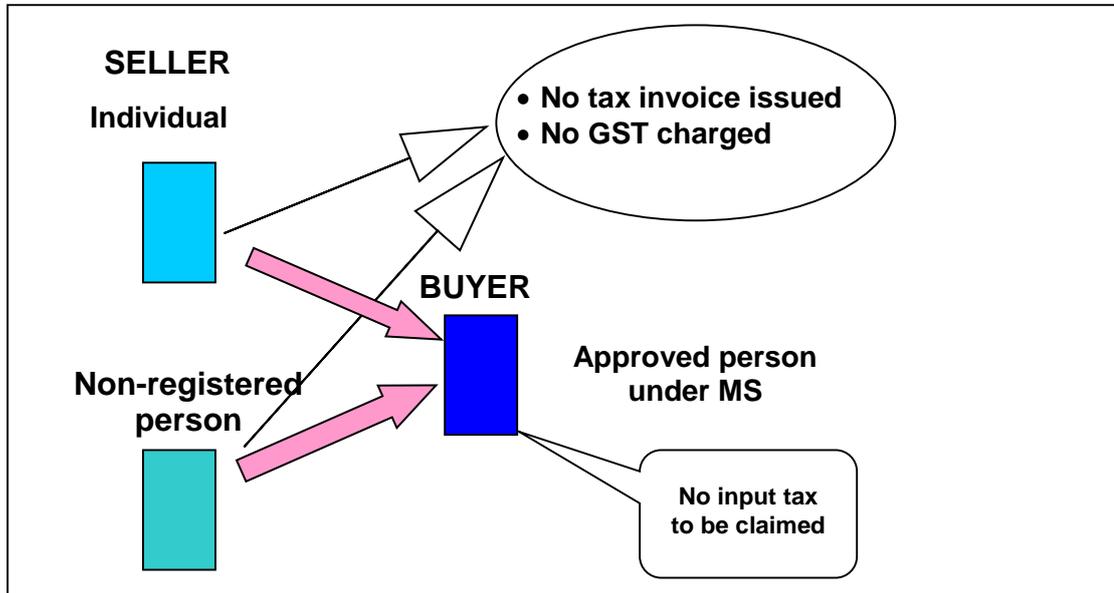
15. A taxable person may apply for this scheme subject to the following conditions:

- (a) he must obtain an operating license issued by the relevant local council or authority;
- (b) he has performed and complied with all duties and obligations relating to his liabilities to account and pay such tax as prescribed under the Act; and
- (c) he has not, in the 3 years preceding the date of his application for approval:-
  - (i) been convicted of any offence under the Act; or
  - (ii) accepted any offer of compound under the Act.
- (d) 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.
- (e) GST must be accounted on the margin that is the difference between the selling price and the purchase price, where the tax is inclusive in the margin.
- (f) 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.

## HOW MARGIN SCHEME OPERATES

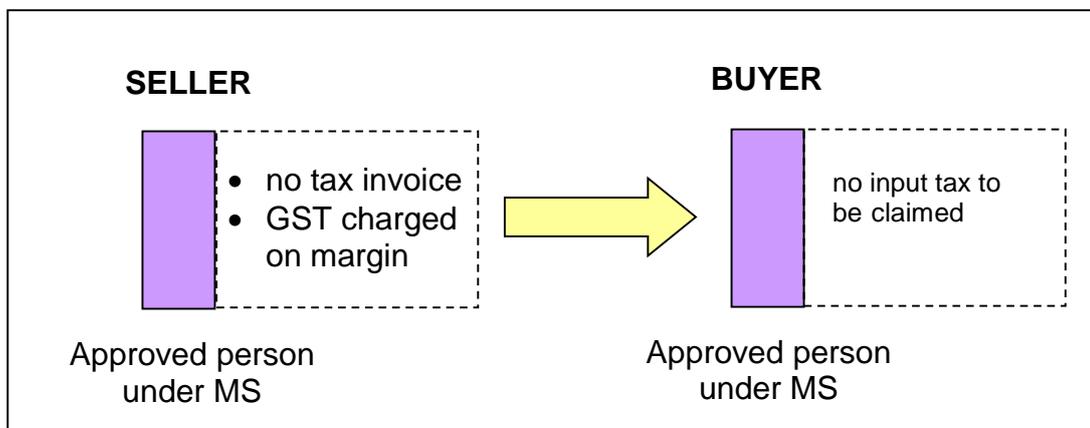
### Acquisition by an approved person under Margin Scheme (Input)

#### Scenario 1:



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

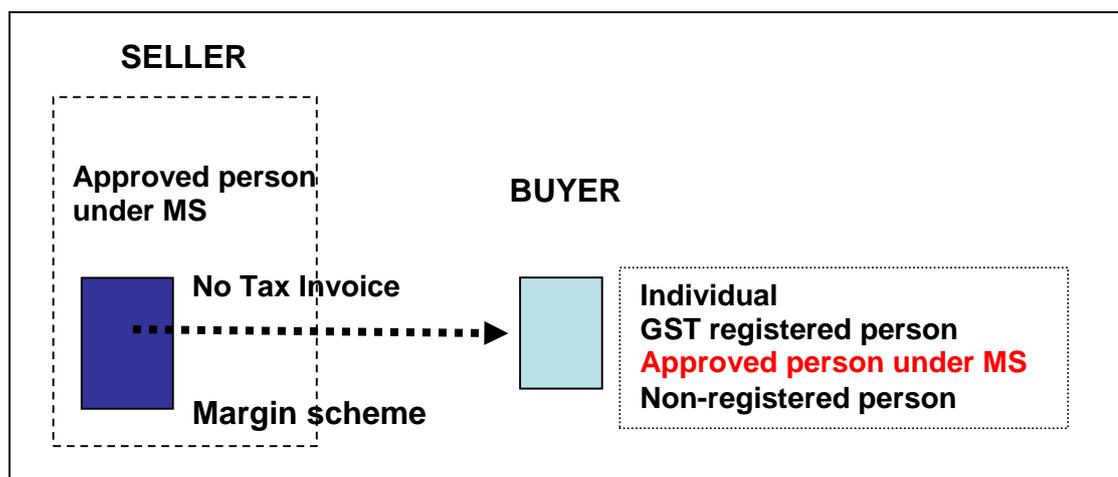
#### Scenario 2:



17. **Under Scenario 2**, a buyer who is an approved person under MS can also purchase second-hand motor vehicle from another approved person under MS. No tax invoice is issued by the seller but GST is charged 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 option whether he wants to apply the margin scheme or not when he sells the goods.

Transaction Using Margin Scheme (Output)

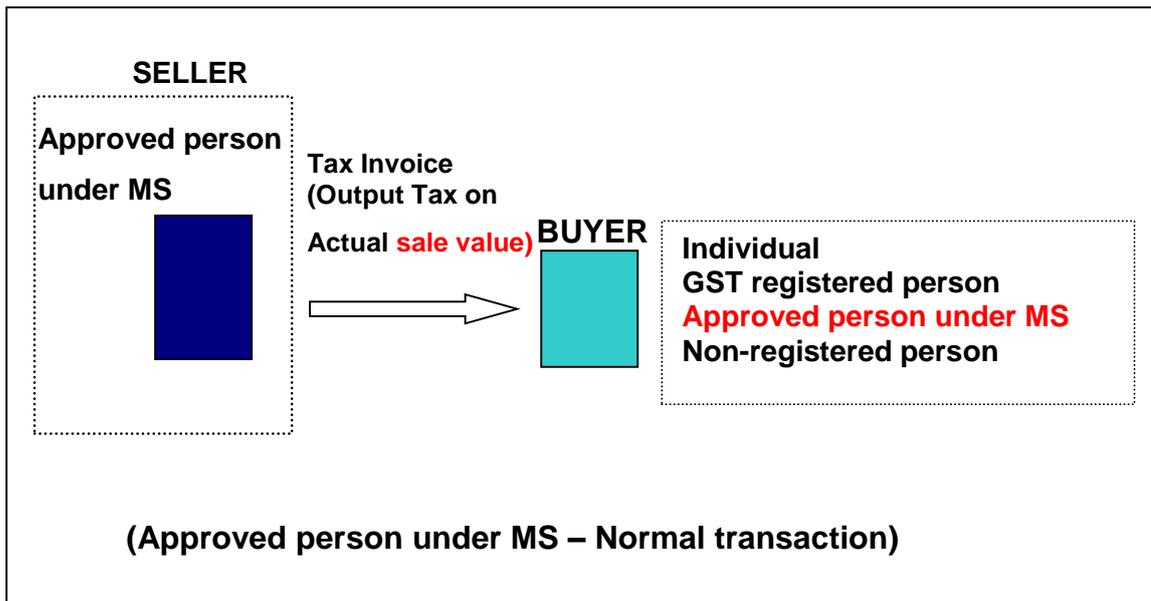
**Scenario 3:**



18. **Under scenario 3**, when an approved person under MS sells the motor vehicle using margin scheme to an individual, non-registered person, approved person under MS 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.

## Approved Person under MS using Normal Transaction (Output)

### Scenario 4:



19. Under scenario 4, when an approved person under MS sells the motor vehicle to a buyer using normal transaction, tax invoice has to be issued and output tax has to be charged and accounted for based on the **actual sales value**.

## TRANSACTION INVOLVING 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 of the motor vehicle being sold.

## CALCULATION AND ACCOUNTING FOR OUTPUT TAX

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

### **Example 1:**

*Abby, a car dealer who is an approved person under MS bought a used car from Chan, the second-hand car dealer, who is a non-GST registered person, at a price of RM45,000. Abby then sells the used car to an individual (non-GST registered person), Mr. Pillai, for RM50,000*

using the margin scheme. The calculation of GST is shown in the table below:

Selling Price	RM50,000
Purchase Price	RM45,000
Gross Margin	RM(50,000 – 45,000) =RM5,000
GST	$6/106 \times \text{RM}5,000$ = RM283.00 (not to be shown on the invoice)
Value of the car	Selling price less GST = RM(50,000 – 283.00) = RM49,717.00
Output tax (to be accounted by Abby)	RM283.00
Input tax (for Abby)	RM0.00 (no GST charged to Abby and thus no input tax to be claimed by Abby)

### When to account for output tax

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

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

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

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 sales price;
- (v) vehicle's registration, engine and chassis numbers;
- (vi) model and make.

(c) Accounting details

- (i) purchase price;
- (ii) selling price;
- (iii) margin in sales;
- (iv) tax rate on the date of the sales;
- (v) GST amount.

26. For accounting purposes, the approved person is also allowed to include other items in the stock book or similar records but details listed above must always be shown. In addition to that, the stock book or similar records must always be **up-to-date** and the records must be kept for **seven 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 a numerical order);
- (c) date of acquisition (purchase);
- (d) particulars of car such as registration number, make, model, engine and chassis numbers; and
- (e) total purchase price.

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

### **SELLING A SECOND-HAND MOTOR VEHICLES**

29. When an approved person under MS sells a second-hand motor vehicle using the margin scheme, he must maintain the following records;

- (a) The **sales invoice** issued under the Margin Scheme must show the followings:-
  - (i) seller's name and address;
  - (ii) GST registration number and Margin Scheme number;
  - (iii) buyer's name and address;
  - (iv) stock number;
  - (v) sales invoice number;

- (vi) date of sales invoice;
- (vii) particulars of car such as registration number, make, model, engine and chassis numbers;
- (viii) total sales price;
- (ix) seller's signature and date on the invoice certifying 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 sales invoice.

*Example of an invoice is shown in **Appendix 1**.*

## **HIRE PURCHASE TRANSACTION USING MARGIN SCHEME**

30. This is a transaction whereby a buyer of a car obtains financial assistance from a financial institution, in which the loan will form a substantial portion of the purchase price while the balance will be paid by the buyer. Usually, the buyer will place some deposit before purchasing 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 subjected to GST. The calculation of GST chargeable and payable is shown in the example below:

### ***Example 2:***

*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 subjected to GST. GST is accounted based on the total amount of selling price (i.e. down payment + loan). However, the issue here is 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.*

**The illustration of how output tax should be accounted for:**

	<b>Scenario 1 Down payment &gt; Margin</b>	<b>Scenario 2 Down payment &lt; Margin</b>
<b>Selling Price</b>	RM50,000 (inclusive of GST)	RM50,000 (inclusive of GST)
<b>Down payment</b>	RM10,000	RM10,000
<b>Loan</b>	RM40,000	RM40,000
<b>Purchase Price</b>	RM45,000	RM35,000
<b>Margin</b>	RM(50,000 – 45,000) = RM5,000.00	RM(50,000 – 35,000) = RM15,000.00
<b>GST charged on the sales</b>	6/106 x RM5,000 = RM283.00	6/106 x RM15,000 = RM849.05
<b>GST on down payment</b>	6/106 x RM10,000 = RM566.03	6/106 x RM10,000 = RM566.03
<b>GST to be accounted for</b>	RM283.00  This amount will be accounted wholly from down payment as GST is chargeable on the sales 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), when the loan is approved.

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 the GST return for the taxable period when the 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 the GST return for the taxable period in 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 the GST return for the taxable period when the loan is approved.

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

## FREQUENTLY ASKED QUESTIONS

### Charging Output Tax

**Q1: Do I have to account for the 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 approved person under MS accounts for GST on the margin (GST-inclusive). No GST is to be claimed when the approved person under MS purchases the eligible goods as no tax is charged or tax is only chargeable on the margin.

**Q3: I am an approved person under MS. I bought a car from an individual who is not registered under GST. The car was previously purchased by that individual during sales tax era. Can I sell the car under Margin Scheme?**

A3: Yes, you can sell the car under the scheme since the owner did not charge for the GST on the sales of the car to you.

**Q4: Excellent Product Sdn. Bhd. (EPSB) is a manufacturer and also a GST registered person. EPSB has a lorry which was purchased during sales tax era. When EPSB sells the used lorry, does he have to charge GST on the supply?**

A4: Yes, the supply of the used lorry is subject to GST at a standard rate and the tax is charged on the full value of the lorry sold.

**Q5: If the used lorry supplied by EPSB as in Q4 above is bought by a second-hand dealer who is an approved person under MS, can the lorry subsequently be sold under Margin Scheme?**

A5: No, because the lorry is sold under the normal rules of GST where GST is charged on the full value of the lorry. Furthermore, the GST incurred by the second-hand dealer is claimable. Therefore, the second-hand dealer must also sell the lorry under the normal rules of GST.

**Q6: Waris Trading (WT) is a retailer who is not registered under GST. During sales tax era, WT bought a van as a company vehicle. Seven years later WT becomes a registered person and decides to sell the van. Does he have to charge GST on the supply?**

A6: Yes, he has to charge GST on the sales because he is a registered person. The tax must be charged on the full value of the van sold.

**Q7: If the used van supplied by WT as in Q6 above is bought by a second-hand dealer who is an approved person under MS, can the van subsequently be sold under Margin Scheme?**

A7: No, the used van cannot be sold under the scheme because the van is sold under the normal rules of GST where GST is charged on the full value of the van. Furthermore, the GST incurred by the second-hand dealer is claimable. Therefore, the second-hand dealer must also sell the van under the normal rules of GST.

### **Claiming Input Tax**

**Q8: How does the Margin Scheme affects GST on my overheads?**

A8: You can claim GST on all your business overheads such as office rental and utilities. You can also claim GST on the repair and maintenance of your cars, which forms part of your stock trade if you are a second-hand dealer and registered under GST.

**Q9: My supplier charged me GST on parts that I have replaced on used motor vehicles purchased under Margin Scheme. Can I claim the GST incurred as my input tax credit?**

A9: Yes, you can claim the input tax incurred.

**Q10: I am a second-hand car dealer. I have purchased a car from a registered person who charged me GST on the sales of the car. Can I choose not to**

**claim the GST charged to me so that I can sell the car under Margin Scheme?**

A10: No, if you purchase a motor vehicle under normal rules of GST where the tax has been charged to you, you have to sell the motor vehicle under the normal rules of GST irrespective of whether you choose to claim the input tax or not.

**Record Keeping**

**Q11: As an approved person under MS, do I have to submit any report to GST office?**

A11. Yes, you have to prepare monthly report known as Lampiran B – 0, P.T. GST Bil. 2E (*refer to Appendix 2*) and submit it to the GST office (controlling station) within 15 days after the end of one calendar month. The template of Lampiran B – 0, P.T. GST Bil. 2E can be downloaded from the GST portal.

## **INQUIRY**

1. For any inquiries for this guide please contact :

Sector VI  
GST Division  
Royal Malaysian Customs Department  
Level 3 – 7, Block A, Menara Tulus,  
No. 22, Persiaran Perdana, Presint 3,  
62100 Putrajaya.

Email : [gstsector6@customs.gov.my](mailto:gstsector6@customs.gov.my)

## **FURTHER ASSISTANCE AND INFORMATION ON GST**

2. Further information on GST can be obtained from :

(a) GST website : [www.gst.customs.gov.my](http://www.gst.customs.gov.my)

(b) Customs Call Center :

- Tel : 03-7806 7200 / 1-300-888-500
- Fax : 03-7806 7599
- Email : [ccc@customs.gov.my](mailto:ccc@customs.gov.my)

APPENDIX 1

FAIZULUSED CAR SDN. BHD.  
No. 101, Jalan Sehala, Selangor  
Tel: 03-78905678  
PBT1122334455  
(GST ID No : 102432/2015)  
Margin Scheme Number: 2015-4010

**INVOICE**

*'this is not a tax invoice'*

Invoice No : 2099  
Date : 1 Mei 2016

Ali Bin Baba  
No. 30, Lorong Kiri, Jalan Kanan, Selangor

No.	Description	Total (RM)
1	Stock no. 2151: 1 unit Faizul 1.8 Coupe XL (M) Model 2009. Registration no. WLW1234	56,900.00
2	One Year Road Tax	180.00
3	Registration Fee	250.00
4	Comprehensive Insurance Premium (GST inclusive) by Takaful Sdn. Bhd.	1,500.00
	<b>Total</b>	<b>58,830.00</b>
	<b>Deposit</b>	<b>5,830.00</b>
	<b>Total Amount Due</b>	<b>53,000.00</b>

.....  
FAIZULUSED CAR SDN. BHD.

*"input tax deduction has not been and will not be claimed in respect of the vehicle sold in the invoice"*

**APPENDIX 2**

**PENYATA BULANAN BAGI PERGERAKAN KENDERAAN BERMOTOR TERPAKAI  
DI BAWAH PELEPASAN BARANG TERPAKAI (PBT atau SKIM MARGIN)**

LAMPIRAN B  
LAMPIRAN B – 0  
P.T. GST Bil. 2E

Nama Syarikat:  
Alamat Syarikat:  
No. GST:  
No. PBT:

Bil.	Perolehan				Pembekalan					
	Tarikh Belian	No.Invois Belian/ Resit pembayaran (yang mana berkaitan)	No.GST /No.PBT penjual ( yang mana berkaitan, jika ada)	Harga Belian (RM)	No.GST/No.PBT pembeli (yang mana berkaitan, jika ada)	Tarikh Jualan	No.Invois Jualan	Harga Jualan (RM)	Margin (RM)	Amaun GST (RM)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j) = (i) – (e)	(k) = (j) x 6/106
	Jumlah				Jumlah					

Saya mengaku bahawa maklumat-maklumat yang diberi di atas adalah benar dan betul

Tandatangan:  
Nama:  
No.Kad Pengenalan:  
Jawatan:  
Cop Syarikat:

*ni/PBT/19.3.14*