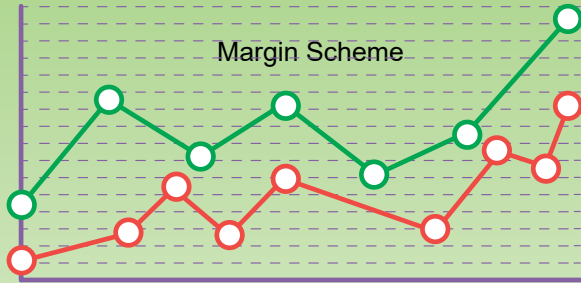


GST

Margin Scheme in GST



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GST

GOODS AND SERVICES TAX

Margin Scheme in GST

(Updated as on November 2022)



Directorate General of Taxpayer Services
CENTRAL BOARD OF INDIRECT TAXES & CUSTOMS
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Margin Scheme in GST

Introduction / Background:

Normally GST is charged on the transaction value of the goods. However, in respect of second hand goods, a person dealing in such goods may be allowed to pay tax on the margin i.e. the difference between the value at which the goods are supplied and the price at which the goods are purchased. If there is no margin, no GST is charged for such supply.

The purpose of the scheme is to avoid double taxation as the goods, having once borne the incidence of tax, re-enter the supply and the economic supply chain.

Valuation of Second Hand Goods:

As per Rule 32(5) of the CGST Rules, 2017, where a taxable supply is provided by a person dealing in buying and selling of second hand goods i.e. used goods as such or after such minor processing which does not change the nature of the goods and where no input tax credit has been availed on the purchase of such goods, the value of supply shall be the difference between the selling price and the purchase price and where the value of such supply is negative, it shall be ignored.

The proviso to the above rule further provides that in case of the purchase value of goods repossessed from an unregistered defaulting borrower, for the purpose of recovery of a loan or debt shall be deemed to be the purchase price of such goods by the defaulting borrower reduced by 5 percentage points for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession.

Exemption to supplies originally purchased from unregistered dealer:

Notification No. 10/2017-Central Tax (Rate) dated 28.06.2017 exempts intra-State supplies of second hand goods received by a registered person, dealing in buying and selling of second hand goods and who pays the central tax on the value of

outward supply of such second hand goods as determined under sub-rule (5) of Rule 32 of the CGST Rules, 2017, from any unregistered supplier, from the whole of the central tax levied under the CGST Act, 2017. Similar exemptions are also there in respective SGST Acts.

Illustration:

For instance, a company say M/s First Source Ltd, which deals in buying and selling of second hand cars, purchases a second hand Maruti Celerio Car of March 2019 make (Original price ₹ 5 Lakh) for ₹ 3 Lakh from an unregistered person and sells the same after minor refurbishing in July 2019 for ₹ 3.5 Lakh.

The supply of the car to the company for ₹ 3 Lakh shall be exempted and the supply of the same by the company to its customer for ₹ 3.5 Lakh shall be taxed and GST shall be levied. The value for GST purpose shall be ₹ 50,000/- i.e. the difference between the selling and the purchase price of the company.

In case any other value is added by way of repair, refurbishing, reconditioning etc., the same shall also be added to the value of goods and be part of the margin.

If margin scheme is opted for a transaction of second hand goods, the person selling the car to the company shall not issue any taxable invoice and the company purchasing the car shall not claim any ITC.

