# Margin Scheme in GST

Normally GST is charged on the transaction value of the goods. However, in respect of second hand goods, a person dealing is 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 five percentage points for every quarter or part thereof, between the date of purchase and the date of disposal by the person making such repossession.

In this regard, Notification No.10/2017-Central Tax (Rate) New Delhi, dated 28th June, 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, 2014 make (Original price Rs. 5 lakh) for Rs. 3 lakhs from an unregistered person and sells the same after minor furbishing in July, 2017 for Rs. 3,50,000/-. The supply of the car to the company for Rs. 3 lakh shall be exempted and the supply of the same by the company to its customer for Rs. 3.5 lakh shall be taxed and GST shall be levied. The value for GST purpose shall be Rs. 50000/-, 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.

**Margin Scheme under GST**

### **Introduction**

Under the Goods and Services Tax (GST) regime, the general principle for valuation prescribes tax to be levied on the transaction value — the actual price paid or payable for the supply of goods or services. However, to prevent cascading tax implications on used goods, a **Margin Scheme** has been introduced, allowing dealers in second-hand goods to pay GST only on the margin value, i.e., the difference between the selling and purchase price, provided specific conditions are satisfied.

### **Objective of the Margin Scheme**

The Margin Scheme is formulated with the intent to mitigate **double taxation** on goods that have already suffered tax incidence at the time of their initial sale. When such goods re-enter the supply chain through resale — especially in the hands of dealers of second-hand goods — taxing the full transaction value again would result in an inequitable tax burden. The scheme, therefore, ensures tax is levied only on the actual value addition (i.e., margin) by the reseller.

### **Valuation Principles under Rule 32(5) of the CGST Rules, 2017**

According to **Rule 32(5)** of the Central Goods and Services Tax (CGST) Rules, 2017, the value of supply in case of taxable supply of second-hand goods shall be the **difference between the sale price and purchase price**, provided:

* The dealer is engaged in **buying and selling second-hand goods** (with or without minor processing that does not change the nature of the goods).
* No **input tax credit (ITC)** has been availed on the purchase of such goods.
* If the computed margin is negative, the **value shall be deemed zero** for GST purposes (i.e., no GST liability arises).

### **Special Provision for Repossessed Goods**

The rule further prescribes a special valuation method for **goods repossessed from defaulting borrowers** (who are unregistered), to recover outstanding loans or debts. In such cases, the **purchase price** of the repossessed goods shall be deemed to be the original purchase price by the borrower, **reduced by 5% for every quarter (or part thereof)** from the date of purchase till the date of disposal by the repossessing entity.

### **Exemption Notification**

**Notification No. 10/2017-Central Tax (Rate), dated 28th June 2017**, exempts intra-State supplies of second-hand goods received by a registered dealer (who pays tax on margin value as per Rule 32(5)) from any **unregistered supplier**, from the **entire central tax (CGST)** otherwise applicable on such inward supply. Respective State Governments have issued parallel notifications to grant similar exemption under SGST laws.

### **Illustrative Example**

Consider the case of M/s First Source Ltd, a company engaged in the resale of second-hand cars. It purchases a **used Maruti Celerio (manufactured in March 2014)** from an **unregistered individual** for ₹3,00,000 and sells it after minor refurbishing for ₹3,50,000 in July 2017.

* **Purchase from unregistered supplier**: Exempt under Notification No. 10/2017.
* **Supply to customer**: Taxable under GST.
* **Value for GST**: ₹50,000 (₹3,50,000 - ₹3,00,000).
* GST is payable on this margin value only.

Any additional value incurred towards **refurbishing, reconditioning, or repair** shall be included in the margin value if not separately invoiced.

### **Conditions and Compliance**

* No **ITC** can be claimed on purchase of such second-hand goods.
* The supplier of such goods (e.g., the original owner of the second-hand car) does **not issue a taxable invoice**.
* The dealer (e.g., M/s First Source Ltd) must **maintain records** evidencing purchase price, sale price, and nature of processing (if any) to justify the margin claimed.

### **Conclusion**

The Margin Scheme under GST serves as a pragmatic approach to ensure tax neutrality in the trade of second-hand goods. It supports small and medium-scale enterprises operating in the resale segment by preventing tax accumulation and ensuring compliance simplicity, while aligning with the broader principle of taxation on value addition. Proper adherence to the conditions laid out under Rule 32(5) and associated notifications is critical for dealers to avail the benefits of this scheme.