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WORKSHOP NOTES

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WORKSHOP NOTES

The objectives of this workshop

The objectives of the workshop are to provide participants with a basic introduction to, and understanding of GST and to outline the steps which should be taken by artists or arts organisations to help prepare for the introduction of The New Tax System.

The workshop is designed to meet these objectives by:

- > adopting a practical approach
- > providing an overview of the basic concepts of The New Tax System
- > providing guidance to assist artists and arts organisations in making decisions regarding registration for an ABN or GST
- > explaining key GST terms and forms
- > addressing the treatment of some specific GST issues as they may apply to the participant's arts activities or business
- > working through examples which address the issues covered during the workshop
- > providing advice on how artists and arts organisations should plan for GST in the lead up to 1 July 2000

Introduction

This workshop is in three parts. Part A is *Review of basic GST principles*, Part B is *Arts Issues* and Part C is *What you need to do*.

The New Tax System will impact on what you pay others, how much they pay you, arts grants, royalties, commissions, sales, auctions and box office. That is why it is important that you have this workbook and attend a workshop. This workbook includes list of key terms or jargon and their explanations, action and key things to know. They are useful in conjunction with this section.



A

WORKSHOP NOTES

PART A

Review of basic GST principles

The New Tax System

- **Overview**

- **Changes to existing taxes**

- **Pay As You Go (PAYG) System**

Overview

The New Tax System is much more than just GST.

The Commonwealth Government is setting up A New Tax System for Australia. The main piece of legislation (A New Tax System Goods & Services Tax Act 1999), received Royal Assent on 8 July 1999.

The goods and services tax (GST) will apply at the rate of 10% to most goods delivered, and services provided, by businesses and other entities from **1 July 2000**.

The New Tax System agreed between the Commonwealth and the States includes the removal of wholesale sales tax and changes to stamp duty, financial institutions duty, bed tax, debits tax, excise duty and a range of other State and Commonwealth taxes.

When people talk about tax reform most think that it only refers to the introduction of GST. While GST is obviously the main focus leading up to 1 July 2000, there are a number of other important changes which interrelate with or complement the GST.

The Government is also amending the Fringe Benefits Tax (FBT) law introducing a totally new Pay As You Go (PAYG) system of tax remittances and, the existing diesel rebate structure will be expanded and a new diesel grant scheme will be introduced.

Changes to existing taxes

Wholesale sales tax

Wholesale sales tax will be abolished on 1 July 2000. Current sales tax exemptions will have no effect after 30 June 2000. GST comes into operation on 1 July 2000.

Remember that GST is not the same as WST. Your purchases will not be GST exempt because you may have had a WST exemption in the past.

There are changes in the following which are detailed elsewhere in this book:

Fringe Benefits Tax; Excises on diesel fuel and petrol; Excise on tobacco and alcohol; Luxury Car Tax; Wine Equalisation Tax; and Reduction in personal income tax. From 1 July 2000, personal income taxes will be reduced. The tax free threshold will be lifted from \$5,400 to \$6,000.

Pay As You Go (PAYG) System

From 1 July 2000, a new Pay As You Go (PAYG) system will replace the Pay as You Earn (PAYE) system and other withholding tax arrangements. The objective of the PAYG system is to reduce business tax compliance costs by:

- > aligning payment dates for the various taxes that business taxpayers pay
- > allowing business taxpayers to make just one tax payment per quarter
- > combining the existing tax withholding systems into a single system

The new PAYG system will allow for the abolition of 11 existing payment and reporting systems. The PAYE system will be incorporated into the PAYG system.

The new PAYG system comprises:

- > a PAYG withholding system, which replaces the existing Prescribed Payments System (PPS) and Reportable Payments System (RPS) as well as other withholding arrangements, (eg non-resident withholding, tax file number (TFN) withholding)
- > a PAYG instalments system, which replaces the current provisional tax and company tax instalment systems
- > an extension of the existing running balance accounts so that taxpayers can receive a single statement which tallies their net tax paying, or tax refund, position in respect of their entire taxation liabilities

It can be seen from the above, that there are a number of initiatives, other than GST, which may impact on what you do. It will be necessary for you to understand that impact and any entitlements, and how the PAYG provisions will operate.

Your advisers should be able to assist you further in this regard.

Australian Business Number (ABN)

- **New number for all businesses including companies reporting to the ATO**
- **Key to the New Tax System**
- **You must be an enterprise - pass the "enterprise test"**
- **To be used across Government as a unique business identifier**
- **Application forms available electronically, from the ATO, newsagents and post offices**

You may have an ABN for the purposes of other elements of the New Tax System without registering for GST.

You must have an ABN to register for GST.

An ABN will enable businesses in Australia to deal with the ATO and a range of government departments or agencies using the one number.

The ABN is critical to the operation of The New Tax System. This is the number that must be quoted on all tax invoices.

Under PAYG if you do not provide an ABN to any business to whom you supply goods and services, that business ordinarily must deduct withholding tax from payments to those organisations. There are very limited exceptions to the rule. This withholding tax will be at the rate of 48.5 cents in the dollar.

Where a business is required to issue tax invoices these will not be valid for GST purposes unless an ABN appears on the invoices it issues. The business' customers will not be able to claim input tax credits and this could have adverse consequences for the business.

When a business has been allocated an ABN, its details will be placed on the Australian Business Register, which will be administered by the Commissioner of Taxation.

If a charitable organisation chooses not to register for GST, it must still apply for an ABN if it wishes to obtain endorsement from the ATO for income tax exempt status as well as endorsement as a deductible gift recipient (DGR). Both are required before July 1. Charitable organisations that do not get the endorsement will lose their income tax exempt status and gifts to them will not be considered as deductible for Income Tax purposes from 1 July, 2000.

Under the Pay As you Go System, if you use a contractor who does not have an ABN, you must withhold tax from each payment you make to them at the top personal tax rate plus the Medicare levy, currently 48.5%. You must account for these withholding events and send any tax withheld to the ATO. The contractor will not be entitled to claim these withholding events back until completing his or her annual income tax return.

Payments made to entities who have an income tax exempt status, that is, the income they receive will be exempt from income tax, are not required to quote an ABN and will not be subject to the 48.5% withholding.

Pay As You Go Tax System (PAYG)

- **Replaces old PAYE & Provisional Tax (and others)**

- **Introduces new withholding tax of 48.5%**

- **48.5% applies if an ABN is not provided**

- **Has implications for everyone**

What is Pay As You Go (PAYG)?

PAYG replaces existing taxes with new withholding and instalments systems. PAYG includes a new withholding tax. If you are in business and sell goods or services to another business, but do not provide an ABN, the purchaser is required to withhold 48.5% of your payment.

PAYG is the Tax Office's attempt to address the increasingly blurred distinction between employees and independent contractors. PAYG means that unless the person supplying a service can provide an ABN, PAYG will apply. Or, they have to be engaged as an employee, complete an Employment Declaration form, and be subject to PAYE tax provisions.

Despite practices to the contrary, most freelance contractors operating in the arts are actually legally regarded as employees for PAYE purposes. If you work at an agreed hourly rate, at the employer's premises or location, on days and times determined by the employer and you cannot delegate your work to another, you may be regarded as an employee.

If you work at an agreed hourly rate, PAYG will apply to:

- > payment for work and services
- > retirement amounts and annuities
- > a payment arising from an investment where the payee/recipient does not quote an ABN or tax file number
- > payment royalties

What does the PAYG mean for the arts?

The following examples demonstrate the extent PAYG will impact on art practitioners who are carrying on a business but do not have an ABN:

- > You are a dramaturg with a theatre company and you invoice them for your fee of \$1,000. If you don't supply an ABN, the theatre company must deduct \$485 PAYG tax from your fee.
- > You are a writer or composer who has entered into a publishing agreement where you are entitled to \$100 royalties. If you do not supply an ABN, the publisher must deduct \$48.50 from the payment.

- > You are a multimedia artist who has succeeded in obtaining government funding of \$100,000 for a project. Without an ABN, the funder is required to deduct withholding tax of \$48,500.
- > You are a band performing at a local venue for a fee of \$500. Unless the band provides an ABN number, 48.5% must be withheld by the venue operator.
- > You are an artist, successfully selling out your first solo show for a total of \$6,000. The Gallery will deduct its usual commission of 30-40% of sales, and then, because you don't have an ABN, deduct a further 48.5% of the gross payment leaving a total of \$1,200 or less.

When and how do you Pay As You Go?

Under the PAYG system, artists in business must lodge quarterly Business Activity Statements (BAS) specifying the gross income for the previous quarter and the income tax payable. An Income Tax instalment is calculated on the tax rate applicable on the previous income tax return eg. if you paid \$3000 tax on a gross income of \$100,000 your instalment percentage will be 3%. Then you must pay an instalment of 3% of your gross income for the quarter to the ATO. The instalment will be credited against your final Income Tax liability, which will continue to be based on the income tax return that you lodge annually.

Exceptions:

- > does not apply where you are not carrying out an enterprise, that is, where your activity is private, or a hobby
- > does not apply to organisations that are income tax exempt where the payment to them is part of their exempt income

A.4

What is GST?

- **GST is a tax on goods and services**

- **GST is borne by the final consumer of those goods and services**

- **It is the arts business responsibility for the payment of the GST to the ATO**

- **It is 10% added to the value of goods or services (or 1/11 of the GST inclusive price)**

BUT

- **If GST is paid in your business, then you may claim a “credit” from the ATO for that GST**

The following illustration and flow chart provide a **general overview** of how GST will work for your organisation. They illustrate the concepts of **GST liability** on taxable supplies and the offsetting credit available from **input tax credits**.

SUPPLY OF GOODS:

Manufacturer—Distributor—Retailer—Final End Consumer

A basket manufacturer provides a supply (sells) of 100 of its finished products to a distributor for \$4,400 (including \$400 GST). However, the materials with which the manufacturer made the baskets cost it \$3,300 (including \$300 GST).

The distributor on-sells the baskets to retail outlets for \$5,500 (including \$500 GST).

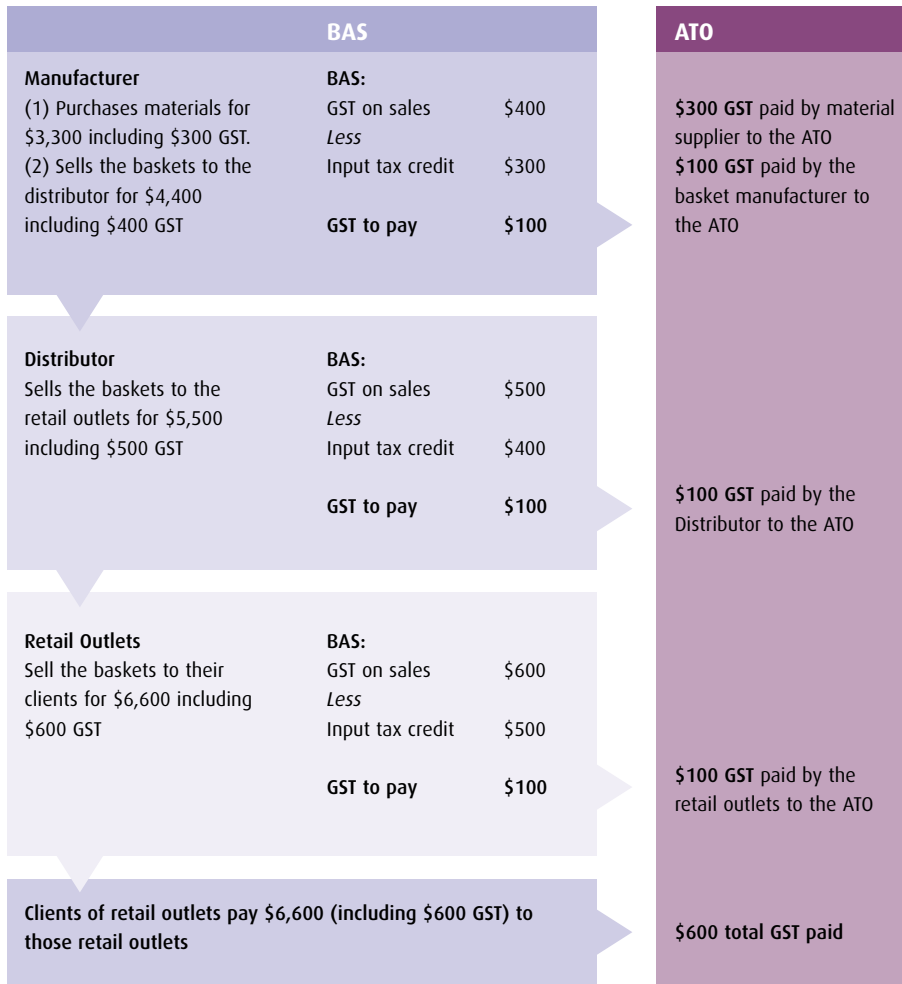
The retail outlets sell the baskets to their clients for \$66 each (including \$6 GST), making total sales of \$6600 (including \$600 GST).

Payment of GST to the ATO - effect of input tax credits - end consumer pays GST

- > The manufacturer offsets the \$300 GST included in the cost of its materials against the \$400 GST payable on the supply of the 100 baskets to the distributor. It then pays its \$100 (net) GST liability to the ATO.
- > The distributor offsets the \$400 GST included in the price charged by the manufacturer against the \$500 GST payable on the supply of the baskets to the retail outlets. The distributor then pays \$100 (net) GST liability to the ATO.
- > The retail outlets offset the \$500 GST included in the price they paid to the distributor against the \$600 GST payable on sales of the baskets to their clients. They then pay \$100 (net) GST liability to the ATO.

Only clients of the retail outlets, ie the end consumers, bear the GST on the final product, as they can't claim input tax credits for GST included in the price paid.

Flow chart of GST transactions & payments



(The \$600 total GST paid includes \$300 paid by the materials supplier, an input tax credit for which was claimed by the manufacturer.)

Each person or entity in the sequence of events in the example:

- > charges GST on its sales
- > claims back from the ATO all GST paid on goods purchased as inputs for their sales
- > when compiling their return for the ATO, they subtract from the GST collected on their sales (**GST liability**), the amount of GST they have paid on their purchases or inputs (**input tax credits**), to calculate the net amount payable to the ATO

The illustration and flow chart also show the fact that GST is collected at each point of sale in the process, and that the final end-consumers (or unregistered entities), not the artist or arts organisation, should pay the GST. The total amount of GST paid in the example is \$600, and, in the final analysis it is the clients of the retail outlets, ie the consumers, who paid that \$600.

The previous example illustrates the principal concepts of GST:

- > GST collected on sales (taxable supplies) less GST paid on purchases (acquisitions) equals amount payable to the ATO
- > that it is the end consumer who pays the GST not artists or arts organisations

An understanding of these concepts is the key to understanding GST

GST will impact on most transactions an individual or organisation enterprise makes.

Under the GST legislation, transactions include the supply of goods (such as artworks, stationery, furniture, equipment etc) and the supply of services, (such as freight, telephones, electricity, consulting services, design services, artist services). If the supplier is a registered person, GST will be payable unless you are acquiring 'GST-free supplies' or 'input taxed supplies'.

The rate of GST that applies is 10%

If after 30 June 2000 you make a taxable supply that has a value of \$100 then, 10% GST will be added to the value and the customer will be charged \$110.

The GST content of a price is 1/11th

The 1/11th is often referred to as the "tax fraction". Similarly, if a business is purchasing a taxable supply for \$110 after 30 June 2000, then \$10 of that will be GST.

GST applies to taxable supplies

GST is a tax:

- on a supply of goods, services and anything else
- by a registered entity
- for consideration
- made in the course of an enterprise connected with Australia

1. "Supply" may include:

- > artworks
- > memberships
- > management expertise
- > advertising for sponsors
- > tickets
- > your talent
- > tuition
- > manuscripts
- > a composition
- > a performance

2. An "entity" includes:

- > individuals
- > bodies corporate
- > partnerships
- > trusts
- > government
- > incorporated associations
- > unincorporated associations

GST can only be charged on supplies by registered entities. Registration is for a minimum of 12 months.

3. "Consideration" includes any payment in connection with the supply of anything, in money or otherwise. The consideration for a transaction may be:

- > a small or nominal amount
- > the accepted market value
- > less than market value
- > greater than market value
- > in-kind or contra

Consideration includes government grants and subsidies, payments for goods and services by your clients, patrons, members, sponsors, and include your payment to others, such as for rent, performance fees, for materials. It is the “glue” that binds an agreement and makes an agreement enforceable between the parties.

A payment as a gift/donation is not consideration, but only where there are no conditions attached to the use of the gift/donation.

4. “Enterprise” includes a business, trade or profession, a lease, licence or other grant of interest in property, charities, religious institutions, government and government corporations.

5. Connected with Australia essentially means there is GST on imports and transactions within Australia, there is no GST on exports.

Summary

If any of these elements are missing in a transaction, GST does not attach to the supply you are providing.

EXAMPLE

Enterprise is not salary and wage earners, hobbies and private recreational pursuits, and other activities of a private or domestic nature, or an activity done by an individual or a partnership without reasonable expectation of profit or gain. Benevolent Arts Enterprises makes baskets for sale to retail shops. It accounts for GST on a cash basis. In a particular tax period, the amount received from its customers was \$77,000 which included \$7,000 GST. It paid its suppliers a total of \$33,000 (including GST) for raw materials etc. It also paid wages of \$15,000.

The business thus has to account to the ATO as follows:

GST on sales	\$7,000
GST content of payments to suppliers	\$3,000
GST to be paid to ATO	\$4,000

It will be seen that the customers provided the \$7,000 GST relating to sales made. The business has paid its suppliers the \$3,000 GST on its purchases but gets this money back from the ATO. Thus, there is no GST cost to the business which, in effect, is merely handing over GST it has collected for the ATO.

EXAMPLE

What is the Gallery's GST story? (The Gallery is registered for GST)

	Tax Exclusive Price	Tax	Tax Inclusive Price
Gallery purchases painting from artist	\$100	\$10	\$110
Gallery sells painting to consumer	\$200	\$20	\$220
BALANCE	\$100	\$10	\$100
Input tax		\$10	
GST Collected		\$20	
Pay to ATO		\$10	

The backward and forward calculation:

Tax exclusive price	$\$100 + 10\%$	
	$\$100 + \$10 = \$110$	GST = \$10
Tax inclusive price	$\$110 / 11 = 10$	GST = \$10

GST is not a cost to business and non profit organisations.

Businesses will pay GST on the goods and services that they pay for. However, if the acquisitions are for the purpose of making supplies, whether taxable or GST-free supplies, GST can be claimed back in full from the ATO. The credits can also be claimed if they are to be used in the business generally (eg a computer for use in the studio/office).

Taken together, this means that GST is not a tax on people and organisations carrying on a business if registered. A registered business collects GST from its customers, and claims back GST on mostly all of its acquisitions.

There are four kinds of supply under GST:

- Taxable supply
- GST-free supply
- Input taxed supply
- Supply by non-registered persons or entities

All the GST details revolve around this concept

THIS CONCEPT IS ONE OF THE MAJOR KEYS TO UNDERSTANDING GST

There are four different types of supply transactions that can occur, each with a different GST treatment.

Taxable supplies

The previous example explained the situation that will apply for the supply of most goods and services to your arts business, and through it you have become aware of one of the four kinds of supply. We have considered how your arts business charges GST on its sales of **taxable supplies**, and its entitlement to claim back the GST paid on its purchases, of taxable supplies through **input tax credits**.

However, there are three other kinds of supply with which your arts business needs to be familiar, GST-free supplies, input taxed supplies, and supplies by non-registered persons.

GST-free supplies

GST-free supplies are different from taxable supplies because, as the name implies, the price on sales of them is free of GST. However, full input tax credits are still available for all purchases, inputs, acquired in relation to those supplies. GST-free supplies include most non-prepared food for human consumption. Water and sewerage rates are also GST-free supplies.

Input taxed supplies

Input taxed supplies relate to certain services and the difference with this kind of supply is that GST is not charged on those services and input tax credits cannot be claimed on any purchases to make those services or supplies.

Details on exemptions to taxable supplies:

- GST-free

- Input taxed

GST-free supplies are supplies where GST is not included in the price for goods and services, but the supplier is entitled to input tax credits for GST paid in providing the goods or service.

GST-free supplies include health, education, basic food, exports, and charities' non-commercial activities.

EXAMPLE

A children's theatre company is registered for GST.

The company sells a production to a school. The school pays the company GST and claims it back as an input tax credit. The company is required to charge the school GST, because while the school may be providing a GST-free supply (an education course) the company is not.

In selling tickets to the production to the students, as long as attendance is part of the curriculum, school will not include GST in the price.

Activities of charities or gift deductible institutions that are non-commercial are activities where goods are sold:

- > for less than 50% of the GST inclusive market value of the item OR for less than 75% of the cost of the supply (or for less than 75% of the market value of the supply in residential accommodation)

EXAMPLE

Ballet Plus has deductible gift recipient (DGR) status. The company's core funding is provided by the Australia Council and the relevant state arts funding body. The average ticket price for performances is \$55. The average production cost for each production is \$40,000. The average attendance for each production is 500 people. Each ticket sold is a separate supply.

On these figures, the cost of each supply is \$80. Therefore the price charged for each ticket is less than 75% of the cost of the supply. Because the theatre company has deductible gift recipient status, the sale of tickets may be GST-free.

This example only demonstrates how this concept might work. The ATO is still to provide guidelines for the practical application of this exception.

Input taxed supplies are supplies where GST is not included in the price, but the supplier is not entitled to input tax credits for GST paid in providing the good or service.

Input taxed supplies include financial supplies and residential rents.

EXAMPLE

An organisation owns several residential properties which it rents out at market rentals to raise funds. As the landlord, it is making input taxed supplies. Because the landlord is providing an input taxed supply, it is unable to claim back any GST that may be included in the costs incurred in relation to those properties. This would include the price of repairs to the property or insurance. This is illustrated below.

Rent received (no GST)		\$1,000
Expenses:	interest (no GST)	\$100
	repairs (incl GST)	\$110
	insurance (incl GST)	\$55
		<hr/>
		\$265
		<hr/>
		\$265
Surplus		\$735

The \$165 costs include \$15 GST (being 1/11th of \$165). The bank cannot recover the \$15 GST as an input tax credit. This is because the supply is treated as input taxed. The \$15 is therefore an added cost to the bank.

Your business has an overdraft facility with a bank. Because this is a financial supply, the bank is not allowed to include GST in its fees and charges, including interest. At the same time, the bank cannot claim input tax credits for the GST in its costs in providing you with the overdraft.

YOUR NOTES :

Tax invoice

- **Always make sure a Tax Invoice is obtained**

- **A tax invoice is your voucher to get credit from the ATO**

- **Needs to contain certain information**

- **Different tax invoice levels exist**

- **Up to \$50 (before GST)**

- **More than \$50 and up to \$1,000 (before GST)**

- **Greater than \$1,000 (before GST)**

Always make sure a Tax Invoice is obtained

If you want to recover from the ATO any GST you are charged for goods and services acquired, generally must hold a tax invoice covering that supply. A tax invoice thus is like a credit note.

A tax invoice is a valuable document

If you are registered for GST and you make a transaction related to business purchases, then the tax invoice provided by your supplier can be turned into credit with the ATO by claiming back the GST component of the price you have paid.

Generally, if you do not hold a tax invoice from the supplier at the end of the tax period, you cannot claim GST input tax credits for the goods or services charged to your business in that tax period. If you got the tax invoice later, then you can claim the credit in a later tax period.

A tax invoice is not just any invoice

To be a tax invoice, an invoice must contain certain legally required information. If it doesn't meet these requirements it isn't a tax invoice and you can't claim back GST as input tax credits.

Different tax invoice requirements exist

Tax invoices for up to \$50 (before GST)

For registered persons if the transaction is \$50 or less (excluding GST), you do not need an actual tax invoice. You only need to hold a suitable receipt for what it bought to enable you to claim an input tax credit.

Tax invoices for more than \$50 and no more than \$1,000 (before GST)

The invoice must contain the words "Tax Invoice" and show:

- > the supplier's name and ABN
- > the date the invoice was issued
- > a description of the goods supplied
- > the GST inclusive price of the taxable supply

And:

If the GST amount payable is 1/11th of the total price either

- > a statement along the lines "the total price includes GST"
- > the GST amount

Or:

If the GST amount payable is not 1/11th of the total price

- > the amount payable for the supply, and
- > the GST amount

Tax invoices for over \$1,000 (before GST)

A tax invoice for a total consideration in excess of \$1,000 must contain all of the above information and:

- > the name of the recipient
- > the address or ABN of the recipient
- > the quantities of the goods supplied

Tax invoices for taxable and non-taxable supplies

If a tax invoice is for a taxable supply and either a GST-free or input taxed supply, the tax invoice must also show:

- > each taxable supply
- > the amount of GST payable (in relation to the taxable supplies)
- > the total amount payable for the supply

Business Activity Statement (BAS) and GST

- **Form for reporting on all elements of The New Tax System**

- **You complete it every month or every three months, depending on basis of GST registration**

Everyone who registers for GST must submit a Business Activity Statement (BAS) that will show not just GST paid or due, but report on a range of other taxes as well, if relevant to you. The BAS statement is your GST return - but it includes a lot more than GST.

This will include:

- > GST
- > Wholesale Sales Tax (WST) for the transition (if applicable)
- > Income tax withholding (PAYG withholding)
- > Income tax instalments (PAYE instalments)
- > FBT instalments

You will still be required to lodge an income tax return once per year.

Most businesses will make one payment and one statement to the ATO per quarter. That is, you will only be required to lodge four BAS returns and make four payments per year. However, some of you may choose to remit GST on a monthly basis. Some businesses may be obliged to remit PAYE monthly (as part of the PAYG system). In that case, you will have to send an Instalment Activity Statement. A BAS will have to be filed when it is due, even if no tax liability exists for the tax period.

The BAS will be sent to you by the ATO either through the mail as a paper form or over the internet as an electronic form. It will include some detail on it (eg your business details and the period for the BAS), and may also have some payment details already completed such as deferred company instalments and the FBT amount.

You must lodge your BAS with the ATO 21 days after the end of the relevant GST tax period. You must keep adequate records so you can accurately complete the BAS to determine the amount of tax you will have to pay to the ATO or the amount that may be refunded, depending on your circumstances.

Any refunds of GST may be used to reduce other amounts of tax that may need to be paid (such as PAYG tax) on the BAS for that period.

WORKSHOP NOTES

A.8

Registration for GST

You are required to be registered if:

- you carry on an enterprise
- your annual turnover is more than \$50,000 or more, or \$100,000 or more for non-profit organisations.

You can choose to register if:

- you carry on an enterprise
- your annual turnover is less than \$50,000 or less than \$100,000 for non-profit organisations.

Entities can only register if they are conducting an enterprise. Enterprises include charities, not-for-profit and educational bodies and government bodies. If an individual or partnership is carrying on an enterprise with the expectation of profit or gain, they will also be able to register for GST, and may be required to do so. When an entity is registered for GST, the registration collectively extends to all of the enterprises or activities conducted by that entity.

An entity does not include activities done as an employee, or private recreational pursuits or hobbies, or where an individual or partnership has absolutely no expectation of profit.

Registration date 31 May 2000 using ABN Registration Form

All businesses that are required to register, or who choose to register, need to complete an application for an Australian Business Number and file that application by 31 May 2000, if they wish to be part of the system by 1 July, 2000.

Otherwise you can register at any time! Once registered, must stay registered for 12 months.

Consider cash basis or accruals basis

The ABN application form asks whether you will complete your GST return on a cash or accruals basis.

A cash basis means that cash transactions are used to establish the GST payable, while an accruals basis takes into account all of the transactions entered into regardless of whether or not payment has been made. Non-profit organisations can account on a cash basis regardless of what their turnover is. These concepts will be looked at later.

GST Accounting rules

- **Determine time of GST accounting**

- **Cash basis rules**

- **Accruals basis rules**

Accounting Rules for GST

When, for any tax period, you complete the GST section of the Business Activity Statement [BAS] you are required to include:

- > the total amount of taxable supplies made by the business during the period
- > the total amount of the taxable supplies you have acquired during the period that relates to taxable activity

It follows that the business must determine in which tax period a particular transaction must be accounted for. This need is covered by the attribution rules. They determine to which period a GST supply should be attributed.

The attribution rules differ depending on whether you are GST registered on a cash or accruals basis.

Cash Basis Attribution Rules

- > Taxable supplies made by you: GST collected is attributed to the GST period in which you receive a payment in respect of the taxable supply.
- > Taxable supplies acquired by you:

Accruals Basis Attribution Rules

- > Taxable supplies made by you: GST collected is attributed to the first GST period in which you either receive a payment or part payment in respect of the taxable supply, or issue an invoice in respect of that supply.
- > Taxable supplies acquired by you: GST claimed as an input tax credit is attributed to the GST period in which you receive a tax invoice in respect of the supply.

GST claimed as an input tax credit is attributed to the GST period in which you make a payment in respect of the taxable supply. A tax invoice must be held at the end of the tax period during which the credit is to be claimed.

Tax periods

- **When you must report on Business Activity Statement (BAS)**

- **Annual turnover less than \$20 million, you may choose monthly or quarterly tax periods**

Transitional provisions for this year:

- > identify existing and new supply contracts that will span 1 July 2000
- > for existing contracts, determine whether there will be a GST liability
- > for reviewable contracts, insert a clause providing for review on implementation of the GST
- > for new contracts, require suppliers to include GST as part of the post 1 July 2000 price, or insert a clause providing for review of price when GST is implemented

If you are registered for GST, 1/11th of your subscription receipts (such as annual membership or season theatre tickets) will be subject to GST where they apply to a period that commences no earlier than 1 July 2000.

In addition, subscriptions that apply for any period, either wholly or partly, after 30 June 2000 will be subject to GST, even if fully paid up before that date. However, in this case, there is a requirement for an apportionment of the value of subscription between the supply occurring before 1 July and the supply occurring after 30 June 2000.

EXAMPLE

The Large Theatre Company

Annual Membership fee for the 2000 calendar year is \$400

There are 550 members - total fees for the year = \$220,000

The Company has a GST liability to the ATO of 1/11th of the fees for the period 1 July-31 December 2000 - on apportionment 6 months

The GST liability is 1/11th of the apportioned amount, \$110,000 - \$10,000

The value of the annual membership fee is \$400 for a calendar year.

2000 membership includes 6 months from 1 July 2000.

The business is liable to the ATO for 1/11th of membership price for the period 1 July 2000 to 31 December 2000.

On apportionment, the price of membership would be \$200 for the first 6 months, and \$200 for the last 6 months of the calendar year.

In order to accommodate GST, the business should increase the membership price for the last 6 months by 10%, which is \$20.

The total membership price for 2000 should be \$420.

The total membership price for 2001 should be \$440.

If you have already taken in membership payments without accounting for GST, you may like to consider including a special note with your next round of renewal notices confirming that GST will apply to payments which have already been collected but which relate to periods after 1 July 2000, and request payment of an additional amount specified and calculated as above. Such action would merely constitute a request. Members are unlikely to be obliged to pay the additional amount, though this will depend on the constitution of your organisation.

You must exercise caution where you offer a subscription payable by instalments and you account on an accruals basis. Under the accounting rule, you will be liable to account for GST on the whole price of the subscription as soon as you receive the first instalment. Remember, you are liable to account for GST in the accounting period in which you receive payment or part payment. Payment of an instalment is part payment.

Under the transitional provisions, you need to determine when the supply took place. When supplying goods, the supply takes place when the goods move, ie they may be in transit from the supplier.

When supplying services, the supply takes place when the services are performed.

Where there is one supply, the payment for that by instalments will be subject to GST according to when the supply takes place.

Only supplies made after 30 June 2000 are subject to GST.

Where a supply is made over a period of time, the supply is taken to be made evenly or progressively over that period. In that case, the payment is subject to GST in accordance with the portion of the supply that is made after 30 June 2000.

You offer a subscription on the basis of 4 shows, 1 in each quarter of the year for a value of \$200, ie \$50 per show. The subscription runs from 1 January to 31 December 2000. Accordingly, the price of the post 30 June 2000 shows will have to have a 10% GST included. They will be priced at \$55 each. The total subscription price will be \$210, including \$10 GST.

- > analyse your current contracts
- > determine which current contracts may have a GST liability
- > if contract may have GST liability seek a review if possible for consideration of GST
- > include GST provisions for contracts entered into from now until 30 June 2000
- > there are special rules for contracts entered into before 1 July 2000 but completed on or after that date
- > you may need to seek professional advice

In analysing your current contracts:

1. Identify all existing and new contracts that will span 1 July 2000.
2. Use the ATO flowchart, and if necessary seeking professional advice, determine which existing contracts may have a GST liability.
3. Where an existing contract may have a GST liability, and it has a review clause, amend the contract to provide for a review of consideration upon implementation of GST.
4. For new contracts, either require your supplier to include GST as part of the post 1 July 2000 price, or insert a clause providing for review of price when the GST is implemented.

Special rules for contracts entered into before 1 July 2000, but completed on or after 1 July 2000

If you sign a contract before 1 July 2000, and it requires the supply of goods and services on or after 1 July 2000, there may be GST payable.

EXAMPLE

On 25 June 2000 an electrical contractor agrees to repair electrical wiring in a theatre for \$1,000, but does not actually repair it until after 30 June 2000. In this situation GST will be 1/11th of the agreed price (\$1,000), being \$90.90. This is payable to the ATO. The contractor thus will have only \$909.10 left instead of the \$1000 they expected to receive to cover the costs of the repair and make a profit. If the agreement had included a clause that allowed for the GST to be included in the price, or a suitable review clause, then \$1,100 could have been charged. If the business has already entered into contracts which span 1 July 2000, there are a number of special rules that may help provide some relief from having to account for GST. The ATO has issued a fact sheet on the topic.

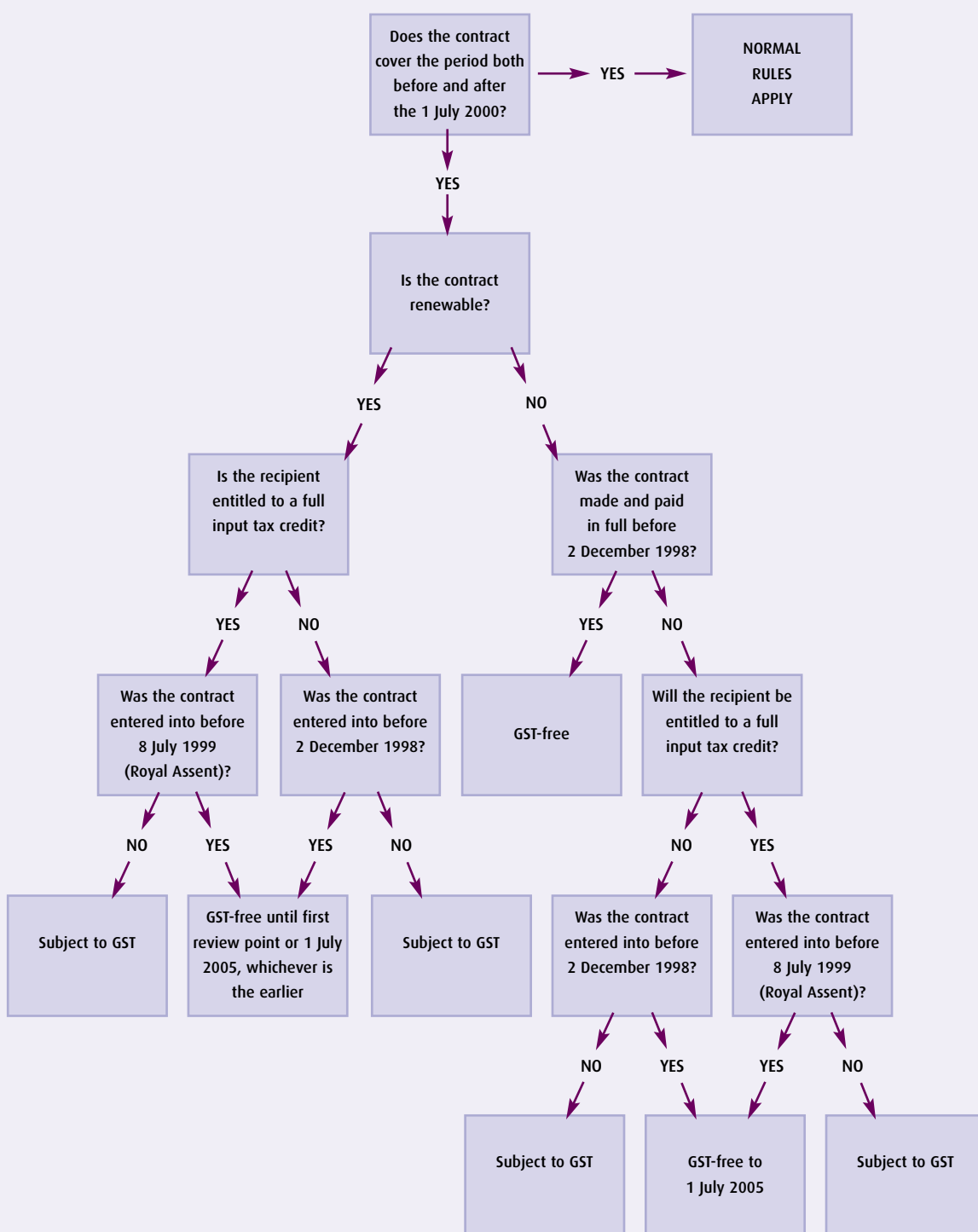
YOUR NOTES :

The ATO's flow chart on transitional rules for contracts that span 1 July 2000 is reproduced as follows:

Supplies made under a contract that spans the implementation date of the GST

This flow chart summarises the GST treatment that is to be given to contracts:

- > entered into before 1 July 2000 involving supplies after this date
- > made by suppliers who are, or will be, registered for GST



EXAMPLE

Prior to 1 July 2000, a Arts Material Supplier purchased stocks of materials for resale to students for \$12,200 (including \$2,200 WST). It typically added a 15% mark-up, and if it sold all the items, would have received \$14,030.

With the introduction of GST and the abolition of WST, adjustments have to be made to the purchase price to take into account the (WST) tax savings which must be passed on to the consumer.

In the WST environment the pricing pattern was:

Wholesale purchase price		\$10,000
Add: WST		\$2,200
<hr/>		
Arts Material Supplier purchase price		\$12,200
Add Supplier mark-up (15%)		
- expenses	\$915	
- Net (%) margin	\$915	\$1,830
<hr/>		
Selling value		\$14,030

In a GST environment, the pricing pattern would become:

Business Unit purchase price		\$9,800
Less: GST (1/11th of purchase price)		\$891
<hr/>		
Net cost to Arts Material Supplier		\$8,909
Add Supplier mark-up		
- expenses	\$600	
- Net (\$) margin	\$915	\$1,515
<hr/>		
		\$10,424
Add GST (10%)		\$1042
<hr/>		
Selling value		\$11,466

The ACCC accepts that businesses should be entitled to recoup compliance costs associated with The New Tax System changes. It also expects that compliance costs will not result in the price of any good or service contravening the price rule (by increasing in price by more than 10 percent because of The New Tax System changes).

Where compliance costs are of a capital nature, such as for new accounting systems, it is expected that any cost impact on prices would be spread over a number of years in line with generally accepted accounting depreciation rules.

Size of price adjustments

The legislation does not prevent artists or art organisations from adjusting prices to reflect The New Tax System changes. However, it seeks to stop them from either raising prices too high or not reducing them enough. **This translates into a simple rule that you should not increase the net dollar margins on your goods and services because of The New Tax System changes alone.**

GST Skills Practice 1: What is GST ?

What do these acronyms stand for ?

GST: _____

ATO: _____

BAS: _____

ABN: _____

TFN: _____

What is the GST tax rate?

_____ %

HINT: If the price of a computer is \$2,200 GST inclusive, how much GST are you being charged? \$ _____

GST = price/11
 GST = value/10
 Price = value + GST

What are the 4 sorts of supply under GST?

1. _____

2. _____

3. _____

4. *Supply a business that is not registered for GST* _____

What are the 4 elements of a taxable supply

1. _____

2. _____

3. _____

4. _____

Who pays GST to the ATO ?

You are registered for GST. If your total grant is \$66,000, how much GST do you pay to the ATO?

\$ _____

Who can claim input tax credits?

If you pay \$110 for a creditable acquisition, how much input tax credit can you claim from the ATO?

\$ _____

What is annual turnover?

If your turnover is more than \$ _____ you must register for GST

What are the two GST accounting methods?

1. _____ which means _____

2. _____ which means _____

Who can choose the GST accounting method they use?

Entities with an annual turnover less than \$ _____ and all _____

How often do you have to report to the ATO?

Businesses with a turnover less than \$ _____ can choose _____ or _____ tax periods.

When must you lodge your BAS and pay GST you owe?

_____ after the end of your chosen tax period

How long must you stay registered for GST?

When will you need a Tax Invoice?

If something costs more than \$ _____ you need a tax invoice as a customer _____ as a supplier _____

How long do you have to pay GST you owe after the end of a tax period?

_____ days. Your tax period is quarterly. You receive your grant payment inclusive of GST on 1 July. What is the last date you can pay the GST to the ATO?

What is your GST liability?

You made taxable supplies of \$440, GST-free supplies of \$660 and purchased goods and services from GST-registered suppliers for a total cost of \$550. Will you make a payment or get a refund?

Payment Refund Amount \$ _____

Summary of Basic Concepts

1. The New Tax System - more than just GST

2. ABN - must register for ABN to retain:

- > tax-exempt status
 - > Deductible Gift Recipient status
-

3. PAYG

- > 48.5% withholding tax
 - > no ABN may result in PAYG
-

4. GST - supply and acquisition

- > taxable supplies
 - > GST-free supplies
 - > input taxed supplies
 - > input tax credits
-

5. GST formula

- > GST included in taxable supplies less input tax credits included in acquisitions equals GST payable to/refundable from, the ATO
-

6. Tax Invoice

- > must possess tax invoice to claim input tax credit
 - > must issue tax invoice for taxable supply made to clients
-

7. BAS

- > reporting to ATO
 - > submit monthly or quarterly
-

8. Registration

- > do I or don't I?
 - > \$50K, \$100K threshold
 - > accounting rules - cash vs accruals
-

9. Transitional provisions

- > special rules for contracts entered into pre-1 July but completed post-1 July
-

10. GST pricing

- > the role of the ACCC
 - > savings from abolition of WST must be passed on
 - > deduct GST component from cost price of acquisitions before applying margin
 - > add GST to pre-GST price including margin to arrive at selling price
-