CASE STUDY 9

Sue King Dance Collective: The Dance Company

This case study provides an example of the effect of GST on a small dance company. Obviously not all issues that may arise in respect of all dance companies can be dealt with here.

If you have any queries regarding the application of GST to your own circumstances, you should seek professional advice or contact the Australian Taxation Office. Further information is also available on the ATO website at www.taxreform.ato.gov.au

Sue King Dance Collective's situation

The Sue King Dance Collective (SKDC) is a small independent dance company. It has a performance season which runs for about 30 weeks of the year. Sue King is the founder and artistic director of the company. In that role, she also acts as the principal choreographer. However, following an injury, Sue has cut back her choreographing and it has become more commonplace for others to be contracted for the staging of particular performances.

Other people involved in the production of the performances, such as technical crew, lighting and sound designers, are also contracted, as are the musicians, who usually pre-record the work for performance. This saves on space and money. The dancers used by Sue are employed for the duration of the performance season. Where possible, Sue uses a core group of dancers, but the number of dancers required for each production and their availability dictates the actual number employed. Most of the core dancers have some other form of employment to supplement their income.

SKDC has its own rehearsal space, the use of which has been donated by the State Arts Ministry. However, the company has to hire a venue for its performances. The venue hirer provides the facilities for patrons, such as a bar. Lighting and sound equipment is also hired, either from the venue owner, the contracted technical crew, or from a specialised equipment hire business.

A significant portion of the SKDC funding comes from Government grants, (such as the Australia Council and the State Arts Ministry). Box office sales are the next largest source. There is no subscription series. SKDC has some small sponsorship arrangements, including a number of in-kind sponsorships with local businesses, who receive recognition in the printed program in return for providing various goods and services. Included in these local businesses is an accountancy firm, which has provided bookkeeping and administration assistance to the SKDC. This assistance has been crucial to the SKDC in preparing for GST. The help from the accountancy firm has significantly reduced the SKDC's GST compliance costs.

SKDC has recently been invited to perform a season at a cultural festival in Thailand. A fee of $20,000 will be paid to the SKDC for the performances. The only costs to be met out of this fee are in respect of pre-production (lighting design and sound recording), choreographic costs, and payments to the dancers. All other costs, such as airfares, accommodation and theatre costs are being met by the festival organisers and their sponsors.

Given her own problems as a result of her injury, Sue has initiated a radical plan whereby she brings in a number of physiotherapy students to assist the dancers warm up for their routines, as well as post-show massages. A small fee is charged by Sue's regular physiotherapist, who supervises the sessions. This approach is an enormous benefit to the dancers, and the student physiotherapists gain invaluable experience as well.

To register or not to register?

As the annual turnover of the SKDC is more than $50,000, it is compulsory for it to register for GST.

GST effect

The impact of GST on the activities of the SKDC may be summarised as follows:

Activity	Implications
Box Office sales	The sales would be subject to GST. SKDC would have to remit 1/11th of the sale proceeds to the ATO as GST collected on the supply.
Australia Council and other Government grants	The grant is a taxable supply and 1/11th of the grant should be remitted to the ATO. The grant would be topped up by the funding body where the recipient is registered for GST. This would preserve the buying power of the grant when compared to the pre-GST situation. The grant top up protects the net result for both the SKDC and the granting body.
Sponsorships (cash)	Sponsorships received are subject to GST. SKDC would have to remit 1/11th of the income to the ATO as GST collected on the supply. As the sponsor (assuming it is GST registered) would obtain an input tax credit, the sponsor should consider topping up the sponsorship for GST component to protect the net position of the SKDC.
Sponsorship (in kind)	GST would be payable in respect of the advertising provided by the SKDC to the sponsors. SKDC would need to remit GST, even though no cash was received. At the same time, the SKDC would be entitled to an input tax credit for 10% of the value of the goods or services provided by the sponsors. These two amounts could offset one another, leaving the SKDC in a nil net position.
Rehearsal space	GST treatment of the provision of the rehearsal space would depend upon the terms under which it is provided. Should it be an unconditional supply, the provision would be akin to a donation and there would be no GST applicable. However, if the space is provided under conditions similar to those attached to grants (or is part of the SKDC's grant package), GST treatment would be the same as for an in kind sponsorship. That is, the SKDC would have to remit 1/11th of the value of undertakings (its supply) to the ATO. The value of those undertakings would be the value of the premises supplied, so the SKDC would get an input credit for 1/11th of the value of the rent. Those two amounts would offset one another, resulting in a nil net position.

Activity	Implications
Contractors hired (technicians, musicians and choreographers)	If the consultant/contractor is registered for GST purposes, the SKDC would get input tax credits for GST charged by the consultant. If the consultant were not registered, it would be necessary to consider whether the person be treated as a consultant or employee. Assuming the person is a consultant, the consultant must quote their ABN. Failure to quote an ABN would oblige the SKDC to withhold tax at 48.5% from the payment, under the PAYG provisions. This would have serious cash-flow implications for the contractor.
Salary and wages	Not subject to GST.
Interest income	No GST applies to interest received.
Donations	No GST applies to donations received.
General expenses	Any GST charged on the general expenses of the company will create input tax credits, which will be offset against the amount of GST to be remitted by the SKDC. Note that some expenses may not have any GST input tax credits attached (eg bank fees) and others might not carry GST credits by virtue of specific provisions denying credits (eg entertainment, fines etc).
Physiotherapy fees	The fee charged by the physiotherapist is GST-free. That is, there is no GST component in the amount paid by the SKDC. However, as the fee is being paid for professional services provided to an organisation rather than an individual, the physiotherapist should quote his/her ABN so that the SKDC does not have to withhold 48.5% tax from the payment. Had the payment been a private payment by an individual dancer, the quoting of the ABN by the physiotherapist would not have been necessary.
Thai festival payment	The payment received in respect of the Thai cultural festival performance relates to an export of services, as the service is to be supplied outside of Australia. As exports are GST-free, no GST is charged by the SKDC on the payment. Although no GST is charged, it should be noted that the term GST-free means that any GST incurred in making the exports will still be allowed as an input tax credit. Therefore, where the SKDC paid a choreographer to develop the performance in Australia and various lighting and stage designers to create the theme for the staging of the production, as well as the creation of costumes and props, an input tax credit could still be claimed by the SKDC for any GST charged by those parties.

CASE STUDY 10

Dockside Theatre Company: The Theatre Company

This case study provides an example of the effect of GST on a theatre company. Not all issues that may arise in respect of all theatre companies can be dealt with here.

If you have any queries regarding the application of GST to your own circumstances, you should seek professional advice or contact the Australian Taxation Office. Further information is also available on the ATO website at www.taxreform.ato.gov.au

Dockside Theatre Company's situation

The Dockside Theatre Company (DTC) operates in a large regional city, where its principal activity is culturally diverse contemporary drama for young people. DTC derives most of its income from performances, and Government grants, from both the Australia Council and the State Arts Ministry.

DTC has its own premises, a revamped warehouse near the water, which was provided by the State Government some years ago. The building has two theatres, a rehearsal space and administrative offices.

DTC is a non-profit organisation. In recent years it has undertaken an aggressive marketing campaign, including high profile advertising and telemarketing, in order to promote its productions. There is a subscription program, which includes tickets to all plays put on in the main theatre, as well as a regular newsletter. The marketing manager has also succeeded in winning the support of local businesses through a significant sponsorship in-kind program, allowing the businesses advertising space in the printed program and theatre foyer in return providing various goods and services.

The productions staged by the DTC vary from classic and new plays to experimental theatre. As cultural diversity is an aim of the DTC, the plays appeal to a wide cross-section of the public. Many plays are put on for school groups, using the secondary theatre within the DTC centre.

Most of the technical equipment used by the DTC belongs to the company and only occasionally is equipment hired. DTC employs the relevant technicians for bigger productions, and outside consultants may be engaged either for the technical set-up or for the run of the play. An extensive costume wardrobe has developed over the years. The wardrobe manager maintains the costumes and makes new costumes for productions if they cannot be readily purchased. Where a production requires more new costumes than the wardrobe manager can deal with, outside contractors are engaged.

Royalties are paid in respect of plays staged by the DTC which have been written by others. In addition, the DTC commissions various playwrights. DTC has a resident playwright. The actors used are generally part of the DTC's ensemble, with higher profile actors being used for some productions in order to boost box office results.

The use of the ensemble is preferred, however, as it is lower in cost and also promotes the careers of new performers, fulfilling another goal of the DTC. Further to this, the DTC conducts drama workshops which cater for people with an interest in drama, as well as aspiring actors seeking theatrical training and experience. Fees are charged for these courses.

Surplus assets of the DTC are put to work in a variety of ways. The secondary theatre and rehearsal spaces are hired out when they are not being used. Lighting equipment, props and costumes are also hired out to the public and other theatre groups. An area on the ground floor space has been set up as a restaurant, which is leased to an operator. Under the lease arrangement, the restaurateur is also responsible for operating the bar on performance nights. DTC receives a lease rental for the restaurant and a set fee per night for the bar, plus a percentage of the takings.

To register or not to register?

It is compulsory to register for GST if your annual turnover is greater than $50,000 ($100,000 for non-profit organisations).

The turnover of both theatres is over $100,000 and, being a non-profit body, it is compulsory for the DTC to register for GST. The turnover calculation includes the grants received, but excludes interest received and donations.

GST effect

The impact of GST on the activities of the DTC may be summarised as follows:

Activity	Implications
Box Office sales	The sales would be subject to GST. DTC would have to remit 1/11th of the sale proceeds to the ATO as GST collected on the supply.
Hire income (equipment, costumes, theatres, rehearsal space)	The income would be subject to GST. DTC would have to remit 1/11th of the income to the ATO as GST collected on the supply. Clients that are registered for GST would be entitled to an input tax credit in respect of GST charged by the DTC.
Sponsorships (cash)	Sponsorships received are subject to GST. DTC would have to remit 1/11th of the income to the ATO as GST collected on the supply. If the sponsor were GST registered it could obtain an input tax credit so that it could top up the sponsorship for GST component to protect the net position of the DTC.
Sponsorship (in kind)	GST would be payable in respect of the advertising provided by the DTC to the sponsors. DTC would need to remit GST even though no cash was received. At the same time, the DTC would be entitled to an input tax credit for 10% of the value of the goods or services provided by the sponsors. These two amounts could offset one another, leaving the DTC in a nil net position.
Restaurant lease and bar sales commissions	The lease would be subject to GST and the lessee would be entitled to an input tax credit on the lease. Commissions paid in respect of bar sales would also be subject to GST, as they represent the consideration paid in respect of a taxable supply. Therefore, 1/11th of the amount received would be the GST to be remitted to the ATO. The restaurateur would be entitled to input tax credits.

Activity	Implications
Australia Council and other government grants	As the grant is paid as a consideration, it is a taxable supply and 1/11th of the grant should be remitted to the ATO. This amount would have been topped up to allow for GST, so the net result to the DTC is the same.
Subscription fees	The fees will be subject to GST. DTC would have to remit 1/11th of the proceeds to the ATO as GST collected on the supply. In the year of introduction of GST, the DTC will need to determine how much of the subscription period is after 1 July 2000 and calculate GST as 10% of the post 1 July 2000 component.
Newsletters and advertising sales	These would be subject to GST. DTC would have to remit 1/11th of the income to the ATO as GST collected on the supply. For contracts straddling the start of GST, an apportionment needs to be made.
Workshop fees	These fees would appear to be subject to GST. However, if the Education Minister determines that the course is an adult and community education course, or is of a kind so determined and is provided on behalf of a higher education institution, or is government funded, the course may come under the exclusions in the Act and be GST-free. In that situation, no GST would be charged, although the DTC could still get input tax credits for GST paid on acquisitions relating to the course.
Interest received	No GST applies to interest received.
Donations	No GST applies to donations received.
Consultants hired	If the consultant is registered for GST purposes, the DTC gets input tax credits for GST charged by the consultant. If the consultant was not registered, it would be necessary to consider whether the person be treated as a consultant or employee. Assuming the person is a consultant they must quote their ABN. Failure to do so would oblige the DTC to withhold tax at 48.5% under the PAYG provisions.
Equipment purchases	Input tax credits would be available in respect of GST paid on any acquisitions in the return following the period in which the item was acquired. There is no requirement to match the input tax credits with the use of the item.
Royalties	As the payment of the royalty would generally be under a contract executed with reference to the specific performance season, GST would be applicable, assuming the other party was registered for GST. If the royalty recipient is a non-resident, there would be a requirement to withhold tax at the appropriate rate from the payment (10-30% depending on country of residence).

CASE STUDY 11

CraftCo: The Craft Organisation

This case study provides an example of the effect of GST on a craft organisation. Not all issues that may arise in respect of all craft organisations can be dealt with here.

If you have any queries regarding the application of GST to your own circumstances, you should seek professional advice or contact the Australian Taxation Office. Further information is also available on the ATO website at www.taxreform.ato.gov.au

CraftCo's situation

CraftCo is a non-profit organisation that promotes various crafts, as well as assisting the professional and financial development of craft practitioners. CraftCo operates an exhibition and retail centre in a capital city, as well as suburban studios. Sales at the company's shops are of stock that has been purchased as well as items to be sold on a consignment basis.

The company has a number of collaborative ventures with various craft centres in regional areas where studios and galleries are also maintained. Exhibitions are assembled and displayed either at CraftCo's headquarters or toured nationally.

CraftCo's income comes from a number of sources, including entry fees and merchandising sales for some exhibitions, renting of the company's gallery space for corporate functions, profits from sales at the CraftCo shop, subscription fees and advertising revenue for the CraftCo magazine, corporate sponsorship and grants from the Australia Council, the State Government Arts Ministry and other government agencies.

To register or not to register?

As CraftCo is a non-profit organisation, the threshold for registering for GST is set at $100,000 per annum rather than $50,000. The company's turnover is significantly above this, and, therefore, CraftCo must register for GST.

CraftCo needs to consider whether to register on a cash basis (ie account for GST when sales and purchases are physically paid for) or on an accruals basis (ie where GST is accounted for in the period in which a sale or purchase is made). In the latter, GST will still be payable even if the customer has not paid for the item. Because CraftCo's turnover is more than $1 million per annum, CraftCo must register on an accruals basis.

The final consideration is whether CraftCo should be remitting GST returns on a monthly or quarterly basis. If turnover is greater than $20 million per annum, monthly remittances are compulsory. CraftCo's turnover is less than $20 million, so it may elect to remit either monthly or quarterly. Monthly GST returns are required if the ATO considers a taxpayer to have a poor compliance record.

CraftCo chooses to register as a quarterly remitter. This allows CraftCo the free-use of any GST collected during the quarter until the remittance is required to be sent to the ATO, and in respect of debtor sales, allows a further period for collection.

GST effects

The impact of GST on CraftCo's activities may be summarised as follows:

Activity	Implications
Membership fees	These fees are subject to GST and 1/11th of the amount should be remitted to the ATO. GST is to be remitted in the return for the period in which the membership fees are invoiced, rather than for when they are paid. There is no allocation of the membership fees over a period, except that if the membership year straddles the introduction of GST, only that portion relating to the post-1 July 2000 period will be subject to GST.
Gallery admission fees	The admission fees charged are subject to GST and accordingly, 1/11th of the amount will need to be remitted to the ATO. Unless the amount charged exceeded $50, no tax invoice would need to be issued.
Gallery function hire	This would also be subject to GST and 1/11th of the fee charged should be accounted for as such. It will be necessary to issue tax invoices to hirers, who would ordinarily be expected to be registered and, therefore, would seek to claim input tax credits for GST charged.
Grants (Australia Council & others)	As the grant is paid as a consideration, which is a taxable supply, the grant would be subject to GST. Therefore, 1/11th of the grant amount is the GST to be remitted to the ATO in GST return following the receipt of the grant. The Australia Council would have topped up the grant to allow for GST, so the net result to CraftCo should be the same. Whether other government agencies will top up grants is an issue for them to consider. Although CraftCo is making the taxable supply in this situation, the grantor, being a government body, may choose to issue a Recipient Created Tax Invoice (RCTI) rather than rely on one created by CraftCo. Only one tax invoice can be made in respect of any supply.
Sales from shops	These are subject to GST. The range of prices for items charged results in some being sold below $50, for which a tax invoice is not necessary. CraftCo should ensure that its systems can cope with issuing tax invoices as required. Although all of the supplies will be “taxable supplies”, not all customers will require a tax invoice. Generally, only registered customers will require a tax invoice to substantiate their claim for an input tax credit.
Magazine subscriptions	Amounts received in respect of magazine subscriptions will be subject to GST. If the subscription period straddles GST start date of 1 July 2000, GST will apply only to that portion of the subscription period after that date and will be subject to GST. Any subscriptions paid before 1 July 2000 will include GST and if CraftCo did not allow for GST in its pricing, it will have to pay GST out of its own revenue.
Magazine advertising	The proceeds will be subject to GST. Any commissions paid in respect of the advertising should generate input tax credits, which, can be offset against the liability.
Donations	If the donation is unconditional, or there is no material benefit obtained by the donor, the donation will be GST-free and no portion should be remitted to the ATO. If the donation were more akin to sponsorship, it would be subject to GST.
Rent for Studios	Rent received in respect of non-residential property will be subject to GST. If the craft practitioners renting the studio space are GST registered, they will be able to claim input tax credits for GST paid on the rent.
Seminar fees	Fees received are subject to GST. The seminars are not likely to fall within the education exceptions.

Activity	Implications
Writers' fees (for magazine)	The treatment depends upon whether or not the writer is GST registered. If the writer is registered, GST will be charged and CraftCo will be entitled to an input tax credit for GST paid. If the writer is not registered, there will obviously be no input tax credits, CraftCo would need to consider whether to withhold tax at 48.5% from the payment if the writer did not give an ABN.
Depreciation of plant & equipment	There is no GST in respect of depreciation as it is not a creditable acquisition. However, any input tax credits arising on any capital items acquired after 1 July 2000 will be allowed in full (assuming used wholly in the enterprise of CraftCo) in GST return for the period in which the acquisition took place. That is, there is no spreading of GST input tax credits over the effective life of the asset.
Salary and wages	Not subject to GST.
Exhibition artists' fees	The treatment will be the same as for writers' fees.
General expenses	Any GST charged on the general expenses of the company will create input tax credits, which can be offset against the amount of GST to be remitted by CraftCo to the ATO. Some expenses may not have any GST input tax credits attached (eg bank fees) and others might not carry GST credits by virtue of specific provisions denying credits (eg entertainment, fines etc).
Bad debts	Where a sale was made, GST would have been accounted for in the period of the sale under the accruals method. If the debt becomes bad, GST will be reversed. This will need an adjustment note (ATO GST Ruling 1999/D4)

CASE STUDY 12

Art In Your Face: The Venue Management Company

This case study provides an example of the effect of GST on an Indigenous venue management organisation. Not all issues that may arise in respect of all Indigenous venue management companies can be dealt with here.

If you have any queries regarding the application of GST to your own circumstances, you should seek professional advice or contact the Australian Taxation Office. Further information is also available on the ATO website at www.taxreform.ato.gov.au

Art In Your Face's situation

Art in Your Face (AIYF) promotes emerging Indigenous artists and art forms. To achieve this, AIYF provides a small theatre for hire at which performances of drama, dance and music can be rehearsed and staged. AIYF has taken steps to obtain a number of sites in various locations in which to install artworks. These include display cases in shops and in the foyer areas of public office buildings, and empty shopfronts.

Fees are charged for theatre hire but occasionally AIYF will stage a production itself. In those cases, it will receive box office takings. Whenever the theatre is used, AIYF staff operates a bar at the theatre for patrons.

AIYF has actively been promoting cross-disciplinary arts events and exhibitions as well as international cooperation by means of supporting touring companies or assisting Indigenous Australian artists with the planning of their overseas tours. When exhibitions are held, AIYF contracts a curator for the event and may incur fees for the artists too.

Grants are received from a number of government agencies, including the Australia Council. These grants are the major source of funding for AIYF.

As AIYF is a non-profit organisation, the threshold for registering for GST is set at $100,000 per annum. The organisation's turnover is above this level, so AIYF must register for GST.

An issue that AIYF will need to consider is whether to register on a cash basis (ie account for GST when sales and purchases are physically paid for) or on an accruals basis (ie where GST is accounted for in the period in which a sale or purchase is made). In the latter, GST will still be payable even if the customer has not paid for the item. AIYF's turnover is less than $1 million per annum, so it may choose to use the cash basis.

In making the decision, AIYF considers the fact that it has a very simple accounting system and the day to day accounts are looked after by a casual bookkeeper rather than full-time accounting staff.

AIYF weighs up the average payment time for its debtors and considers the cash flow consequences of where debtors pay their invoices before the end of the GST period (thus providing AIYF with “free credit” for that GST for up to 111 days) against the situation where a debtor does not pay until after the GST return is remitted, thus requiring AIYF to fund the GST on hose particular sales. A difficulty is perceived in having to reconcile the cash GST returns and accrual accounts, which would place an additional burden on the bookkeeper (on top of the other GST compliance requirements).

The final consideration is whether AIYF should remit GST returns on a monthly or quarterly basis. If the turnover is greater than $20 million per annum, monthly remittances are compulsory. The turnover of AIYF is less than $20 million, so it may elect to remit monthly. Monthly GST returns may be required if the ATO considers a taxpayer to have a poor compliance record.

A decision is taken to register as a quarterly remitter. This will allow AIYF the free use of any GST collected during a quarter until the remittance is required to be sent to the ATO an further, in respect of debtor sales, allows a further period for collection.

GST effect

The impact of the GST on AIYF activities may be summarised as follows:

Activity	Implications
Box Office sales	Sales are subject to GST. AIYF would have to remit 1/11th of the sale proceeds to the ATO as the GST collected on the supply. AIYF would need to ensure that its systems allow it to issue a proper tax invoice for a supply greater than $50. Most box office sales would be to unregistered persons, however, should a request for a tax invoice be made, one must be provided within 28 days.
Theatre hire income	The income would be subject to GST. AIYF would have to remit 1/11th of the income to the ATO as the GST collected on the supply. An input tax credit is available to recipients that are registered for GST.
Sponsorships	Sponsorships received will be subject to GST. AIYF would have to remit 1/11th of the income to the ATO as the GST collected on the supply. If the sponsorship were "in kind", that is, a sponsor provides goods of an agreed value in exchange for say advertising rights, then AIYF would be regarded as acquiring the goods and therefore be entitled to an input tax credit for the GST applicable to the consideration given for those goods.
Bar sales	These sales would be subject to GST. AIYF would have to remit 1/11th of the income to ATO as the GST collected on the supply. Many basic food items are GST-free (including bottled still water and raw unsalted nuts). However, it is unlikely that many of the items sold at the bar would fall within the GST-free categories. AIYF should carefully review their product listing against ATO publications categorizing food into GST taxable and GST-free if there is any doubt. AIYF would get an input tax credit for the GST paid on the purchase if a proper tax invoice is held for purchases of greater than $50. Some of the purchases made by AIYF for the bar may be GST-free foodstuffs (eg whole lemons) but GST will still need to be included in the sale of the items if they have been processed in any way (eg sliced lemons).
Government grants	As the grant is paid as consideration for AIYF's continued promotion of the arts industry, which is a taxable supply, the grant would be subject to GST. Therefore, 1/11th of the grant amount is GST, which should be remitted to the ATO in the GST return following the receipt of the grant. This amount would have topped up the grant to allow for the GST, so the net result to AIYF is the same.
Fundraising	The proceeds from fundraising would be subject to GST. AIYF would have to remit 1/11th of the proceeds to ATO as the GST collected on the supply. AIYF would get an input tax credit for the GST paid on the purchase if a proper tax invoice is held for purchases of greater than $50.
Membership fees	The fees will be subject to GST. AIYF would have to remit 1/11th of the proceeds to the ATO as GST collected.
Magazines and advertising sales	These sales would be subject to GST. AIYF would have to remit 1/11th of the income to the ATO as GST collected on the supply.
Workshop fees	The fees would be subject to GST. AIYF would have to remit 1/11th of the income to ATO as the GST collected on the supply.
Interest received	No GST applies to interest received.
Donation	No GST applies to donations received.

CASE STUDY 13

Notes From Afar: The Music Ensemble

This case study provides an example of the effect of GST on a music ensemble. Not all issues that may arise in respect of all music ensembles can be dealt with here.

If you have any queries regarding the application of GST to your own circumstances, you should seek professional advice or contact the Australian Taxation Office. Further information is also available on the ATO website at www.taxreform.ato.gov.au

Notes From Afar's situation

Notes From Afar (NFA) promotes the appreciation of a wide variety of musical genres, including classical music, folk music, renaissance and other traditional musical forms, music from other countries and Indigenous Australian music. The organisation also encourages the development of new forms of musical expression and actively seeks to assist in the professional development of its musicians.

In fulfilling these aims, NFA organises concerts around Australia featuring a variety of performers, as well a touring ensembles and soloists. These concerts are performed in capital city concert halls as well as more intimate venues in the cities. Touring groups perform at a variety of locations around the country.

NFA offers a subscription series to its capital city concert schedule. The subscriptions account for about 3/5th of concert sales, with the remainder being single ticket sales at the box offices of the various venues.

For a number of years, NFA has been active in scheduling performances by a variety of ensembles at schools around the country. This program is now starting to develop and some performances have been organised for schools overseas.

Apart from the program to promote Australian musicians, NFA supports Australian musicians touring overseas. Overseas musicians are also encouraged to perform in Australia.

Despite its popularity, the costs involved in providing the performance services to regional areas, schools and other non-mainstream areas means that to remain viable, significant financial assistance is required. NFA has a proven record of accomplishment at attracting corporate sponsorship. These arrangements include a sponsorship where services are provided to NFA by means of the provision of hotel accommodation for performers travelling to certain cities. A number of donations are also made, generally the latter being on a "no-strings attached" basis. NFA also receives various grants from the Australia Council and other government sources.

To register or not to register?

Although NFA is a non-profit organisation, it will still be required to register for GST as its turnover exceeds the $100,000 per annum threshold for non-profit organisations.

NFA's annual turnover also exceeds the $1,000,000 threshold and, therefore, NFA must register under the accruals basis. This means that GST will be payable or input tax credits can be offset in respect of the period in which the supply or acquisition took place, rather than the period in which the supply or acquisition was paid for.

NFA should also consider whether it should be remitting GST returns on a monthly or quarterly basis. If the turnover is greater than $20 million per annum, monthly remittances are compulsory. The turnover of NFA is less than $20 million, so it may remit quarterly, although it could elect to remit monthly. Monthly GST returns will be required if the ATO considers a taxpayer to have a poor compliance record. As NFA expects to remit more GST then it will receive input tax credits for, it decides to remit quarterly. This will allow NFA the free use of any GST collected during a quarter until the remittance is required to be sent to the ATO and further, in respect of debtor sales, allows a further period for collection.

GST effects

The impact of the GST on NFA's activities may be summarised as follows:

Activity	Implications
Concert subscriptions	These will be subject to GST and 1/11th of the amount should be remitted to the ATO. The GST is to be remitted in the return for the period in which the membership fees are invoiced, rather than for when they are paid. Further, there is no allocation of the membership fees over a period, except that if the membership year straddles the introduction of the GST, only that portion relating to the post-1 July 2000 period will be subject to GST.
Box Office sales	Box office takings in respect of concerts occurring after 1 July 2000 will be subject to GST. The time of the supply is when the concert is staged, not when it is paid for, so a ticket may be issued prior to 1 July 2000 but still carry a GST liability. Accordingly, 1/11th of the amount will need to be remitted to the ATO. Unless the amount charged exceeded $50, no tax invoice would need to be issued. In view of the nature of the supply, it is unlikely that registered parties will be buying tickets. However, if an employer purchases tickets for its employees (which would be subject to Fringe Benefits Tax), the purchaser would want a tax invoice for the tickets to obtain the input tax credit.
Concert expenses	To the extent that GST is charged to NFA in respect of the costs of staging the concerts, an input tax credit would be allowed. There is no requirement to "match" the expenditure against the particular concert takings.
School performance fees	These may be subject to GST. There could be an argument that the fee relates to the supply of "an excursion or field trip" and is therefore GST-free. However, the supply is generally made to the school rather than direct to the students. There may also be doubt as to whether the excursion or field trip satisfies the other criteria for GST-fee status, being that it is directly related to the curriculum and is not predominantly recreational. The preferred view is that the fee charged to the school is subject to GST. However, the school, would receive a GST refund, given that it otherwise makes GST-free supplies. A fee charged by the school to the students seeking to recover the costs of the NFA performance should be GST-free as it would be part of the curriculum.
Sponsorships (in kind)	Such sponsorships would be subject to GST, with NFA having to remit 1/11th of the value of the goods or services provided by the sponsor. In addition, the sponsor would be making a supply of the relevant goods or services and would have a GST liability for 1/11th of the value. The input tax credits that arise could be offset against the above GST liabilities.

Activity	Implications
Sponsorships (general)	Where NFA receives sponsorship from other bodies, there will be a GST liability if there is an obligation. This could cover the provision of advertising space in the programs or other recognition of the sponsors' support. In such a case, GST equal to 1/11th of the sponsorship amount should be remitted to the ATO. The sponsor, if registered would be entitled to an input tax credit, so a top up of the sponsorship to cover the GST payable by NFA would have no net affect on either party.
Australia Council and other Government grants	As the grant is paid as consideration for a taxable supply, the grant would be subject to GST. Therefore, 1/11th of the grant amount is GST, which should be remitted to the ATO in the GST return following the receipt of the grant. The Australia Council would have topped up the grant to allow for the GST, so the net result to NFA should be the same. Whether other government agencies will top-up grants is an issue for them. Although NFA is making the taxable supply in this situation, the grantor, being a government body, may choose to issue a Recipient Created Tax Invoice (RCTI) rather than rely on one created by NFA. Only one tax invoice can be made in respect of any supply.
Overseas concerts	Not subject to GST.
Artist fees (Australian residents)	A GST registered performer tax would charge GST on the performance fee, being a fee for services. NFA would obtain an input tax credit. If the performer was not registered for GST, then the performer should obtain an ABN and quote it, or NFA will be obliged to withhold 48.5% PAYG withholding tax from payments for services. A payment to an Australian resident in respect of a performance overseas should not be subject to GST or withholding tax.
Artist fees (Non-residents)	Where the performer is a non-resident touring Australia, it would appear that an ABN should be obtained to prevent the 48.5% withholding. An individual performer may be seen to be carrying on an enterprise in Australia and therefore, a voluntary withholding under the PAYG would remove the payments from the GST scope. If the performers were an entity (eg a band that had incorporated), then it would appear that unless the entity had a permanent establishment in Australia, there would be no GST charged by them and no requirement to withhold PAYG tax. Individuals would have Australian-sourced income which would be subject to income tax. With entities, double tax treaties may provide alternative solutions, which would need to be examined on an individual basis.
Donations received	If the donation is unconditional or there is no material benefit obtained by the donor, it will be GST-free and no portion should be remitted to the ATO. If the donation were more akin to sponsorship, it would be subject to GST.
Depreciation of plant & equipment	There is no GST in respect of depreciation as it is not a creditable acquisition. However, any input tax credits arising on any capital items acquired after 1 July 2000 will be allowed in full (assuming used wholly in the enterprise of NFA) in the GST return for the period in which the acquisition took place. That is, there is no spreading of the GST input tax credits over the effective life of the asset.
Salary and wages	Not subject to GST.
General expenses	Any GST charged on the general expenses of the company will create input tax credits, which can be offset against the amount of GST to be remitted by NFA. Some expenses may not have any GST input credits attached (eg bank fees) and others might not carry GST credits by virtue of specific provisions denying credits (eg entertainment, fines).
Bad debts	Where a sale was made, GST would have been accounted for in the period of the sale under the accruals method. If the debt becomes bad, the GST will be reversed. This will need an adjustment note (see GSTR 1999/D4).

CASE STUDY 14

The Manuscript Crypt: The Bookseller

This case study provides an example of the effect of GST on a bookseller. Not all issues that may arise in respect of all booksellers can be dealt with here.

If you have any queries regarding the application of GST to your own circumstances, you should seek professional advice or contact the Australian Taxation Office. Further information is also available on the ATO website at www.taxreform.ato.gov.au.

The Manuscript Crypt's situation

Once a dark, dusty shop lined to the rafters with a seemingly unsorted collection of unrelated tomes, The Manuscript Crypt (TMC) has used its prime location near a regional university campus and careful development of its market niche to become a large and successful independent bookseller.

TMC specialises in supplying text books, academic writings, as well as an enormous catalogue of books in the humanities. TMC has a reputation of being able to source "hard-to-find" books, which has added to its popularity. To further service the voracious appetite of the local students and protect their meagre buying power, TMC has a flourishing secondhand book store. This has developed into an outlet for the sale of antique books and rare folios.

Secondhand books are purchased from members of the public. The antique books are also purchased by TMC. Where a specific book is requested by a customer, TMC takes a deposit and it purchases the book from its network of suppliers.

New books are held in stock in a variety of ways, including consignment selling arrangements, where books are from small distributors or self published works; sale or return arrangements for books from larger publishers and distributors; as well as confirmed purchases where TMC is committed to the product that it purchases from the supplier and cannot return unsold stock.

As TMC's reputation for obtaining more difficult items has developed, it has reached a point where the store directly imports a significant portion of its stocks. Orders are assembled in various overseas locations and shipped to Australia. TMC engages the services of a freight forwarding company to look after the freight insurance and customs clearance of these goods. TMC pays the supplier the invoice price for the books and has a monthly account with the freight forwarding company, which covers the other items mentioned above.

TMC proprietors have embraced internet technology and have a website established which provides information about events occurring at TMC as well as providing opportunities to purchase books from TMC catalogue online. Internet sales at this stage only account for a relatively small portion of the overall sales for TMC. Some of those sales are made to overseas purchasers and the books are forwarded by parcel post to those overseas customers.

TMC provides resource books and other materials to local schools, the university and other educational institutions. These are general resource books for use in the schools library, as TMC does not have the resources to involve itself in the marketing, sales and distribution of textbooks to those institutions.

To encourage customer loyalty, TMC has established a Bookworm Club through which customers are entitled to a discount on books received. A discount is accumulated by way of credits as purchases are made throughout the year and the value is provided by means of a gift certificate distributed at the end of the membership period to eligible members. Membership of the Bookworm Club also includes a number of complimentary tickets which can be redeemed at any of the functions held at TMC's store such as book readings, launches, lectures. Members of the public attending such functions are required to pay a cover charge, which includes light refreshments and some alcoholic beverages.

TMC publishes a monthly newsletter known as Readit. The newsletter is sent to all members of the Bookworm Club as well as other organisations which in the view of the shop proprietors, would benefit from the publication. Other copies are made available in TMC's shop. There is no charge for copies of Readit.

In implementing GST, TMC has had to incur significant expenses in reprogramming its existing computer-based accounting system. One positive side-effect of GST for TMC is the fact that as it has low debtors, so TMC will have use of GST that it has collected up until the quarterly remittance dates.

Activity	Implications
Sale of books (general)	The sales would be subject to GST. TMC would have to remit 1/11th of the sale proceeds to the ATO as the GST collected on the supply.
Purchase of books (committed purchase)	The supply is made to TMC when the books are delivered. Assuming TMC's supplier is registered for GST, TMC becomes entitled to GST input tax credits in respect of the entire purchase at the time the purchase is made. This credit will be claimed in the next GST return of TMC, regardless of whether the books are still on hand at the end of that GST period. GST input tax credits are offset against any GST payable by TMC in respect of its sales.
Purchase (consignment sales)	The treatment of consignment sales will depend on the terms of the contract between TMC and the supplier. 1. Where TMC acquires title to the books at the time they are delivered, and there is a debt arising at that time, it is considered to be a sale-or-return arrangement (see below). 2. If there is no debt payable by TMC until the items are sold to a customer • Arguably the supply does not occur until that later time and TMC gets the input tax credit at the same time as the sale is made, thus offsetting and only having a GST liability for the net amount. • If the supplier is not GST registered, there would be no GST input tax credits available for TMC. 3. If TMC agrees to sell the book on the supplier's behalf, and charges the supplier a commission (either fixed or on a sliding scale) • GST would be charged on the commission (regardless of the GST registration status of the supplier) as this is a service provided by TMC. • The sale to the customer would not be subject to GST as the vendor is in fact the supplier, with TMC acting on its behalf (this makes the accounting and paperwork for the tracking the sale more complicated than would otherwise be the case). • If the supplier is GST registered, the sale to the customer would be subject to GST. Care should be given to ensure that only one of the supplier or TMC issues a tax invoice.
Purchase (sale or return)	Where inventory is acquired on a sale or return basis, the preferred view is that TMC obtains a GST input tax credit for the GST charged on the entire order in the period in which TMC is invoiced. If goods are returned and either a refund or credit is allowed, an adjustment note, reducing the input tax credits available in the period in which the adjustment took place, should be issued.
Purchase (secondhand books)	If the consideration paid by TMC for the purchase of the secondhand books was less than $300, an input tax credit of 1/11th of the purchase price would be allowed. If the price paid was more than $300 (eg for an antique book), the input tax credit is the lesser of 1/11th of the price paid or the GST charged on the supply of that item to a customer. TMC would need to keep records of from whom it acquired the secondhand goods. However, as that requirement is linked to the tax invoice rules, it is suggested that no formal records are required to claim input tax credits for purchases costing less than $50 (although appropriate income tax records must be maintained). These input tax credits are not available where the secondhand book is sold GST-free by TMC or the secondhand book was imported by TMC (which would be subject to GST on importation). Further rules apply in relation to acquiring sets secondhand and selling the parts separately.

Activity	Implications
Importations	The importation of an item is subject to GST, regardless of the GST registration status of the importer. The taxable value of the supply is considered to be the value of the goods plus the costs of freight, insurance and any customs duties charged in importing them. GST needs to be paid before the goods are released from the port of entry. An importer that is registered for GST would be able to claim input tax credits in the next GST return.
Deposits on antique books	If the deposit is taken as a security to ensure that the customer will complete the transaction, there is no GST charged on the deposit (unless it is later forfeited). When the deposit is applied as part of the consideration, it forms part of the consideration which is subject to GST.
Freight & handling costs	The costs of freight and handling on imports would be GST-free (as the costs would have been included in the calculation of the GST payable on the importation of the goods).
Export sales on internet	The export sales made by TMC would be GST-free. This means that TMC will still be entitled to claim input tax credits in respect of the items exported. The cost of shipping the goods overseas would also be GST-free.
School/university sales	Sales to these bodies would be subject to GST. However, as schools and universities would generally be making GST-free supplies, they would get a refund of the GST charged by TMC. This should not affect TMC.
Membership of Bookworm Club	The membership fee charged by TMC would be subject to GST. If the membership straddles GST start date of 1 July 2000, an apportionment should be performed and 1/11th of the part relating to the post-1 July 2000 period should be accounted to the ATO.
Gift certificates to Bookworm Club members	Issuing the gift certificates is not a taxable supply. However, as the certificate has a face value, when it is redeemed and that face value is applied against the GST inclusive cost of the item, GST will need to be remitted, for 1/11th of the price of the item. Therefore, GST equal to 1/11th of the face value of the certificate will be payable at that time (assuming the item is redeemed for goods of the same value). If the gift certificate is not redeemed and TMC writes back the liability in respect of that voucher (eg after an expiry date), an "increasing adjustment" should be made with GST equal to 1/11th of the amount written back to income being accounted for.
Reading/lecture nights	GST would be charged on the cover charge. The costs of the evening would generally generate input tax credits. However, as the cost of the food and drinks would be non-deductible entertainment, there is no input tax credit available in respect of such expenditure, notwithstanding the fact that there was GST charged on the purchase of the food and drinks.
Re-programming computers	Costs of re-programming the computer system to comply with the GST would be deductible. If outside consultants were engaged to perform the work and they charged GST, an input tax credit would be allowed. However, the work should have been performed prior to 1 July 2000. If the supplier is registered, it would be possible to use the government's $200 voucher for the reprogramming. ($200 Direct Assistance certificates are available to businesses registered for the GST. More than 1000 suppliers of goods and services, many offering significant discounts, have registered to supply small businesses with goods and services needed to get GST-ready. The products and any discounts can be obtained by redeeming the Direct Assistance certificates).

CASE STUDY 15

Summit Artists Service: The Artists' Peak Service Organisation

This case study provides an example of the effect of GST on an artists' peak service organisation. Not all issues that may arise in respect of all artists' peak service organisations can be dealt with here.

If you have any queries regarding the application of GST to your own circumstances, you should seek professional advice or contact the Australian Taxation Office. Further information is also available on the ATO website at www.taxreform.ato.gov.au

Summit Artists Service's situation

The Summit Artists Service (SAS) is an organisation which has evolved from the merger of a number of smaller bodies to become one of the peak representative bodies for individual artists in the country. The SAS membership is composed of artists drawn from a number of artforms including: visual arts and crafts; writers; dramatic arts; dancing; musical arts.

The activities of SAS include:

Professional development of artists - this is delivered by means of a number of workshops and seminars aimed to assist artists to understand the business issues involved in professional arts practices. The seminars might include arts marketing; basic business skills; and guidance in respect of grant applications. SAS charges fees for some of these, and others are provided free to members.

Grant information - SAS collects materials regarding forms of funding and other assistance available to practitioners in the various artforms. The information covers grants made by different agencies within the Federal and State governments/local government support programs, and grants offered by private foundations. Also covered are arts festivals and competitions where cash prizes are rewarded. The information is published in an annual publication which is sold to SAS members and to the general public (at a higher price). SAS is looking at placing the information on their website, once cost recovery issues can be sorted out.

Arts advocacy - SAS acts as an advocate and lobbying body to governments in respect of the rights of artists to the ownership of their works. This includes the moral rights ownership as well as intellectual property issues. SAS prepares policy position papers which are presented to the various government departments concerned with such issues, and liaises with the copyright collection agencies on policy matters. SAS has occasionally provided assistance, and support where an artist has had to resort to the courts to press their claim. SAS's assistance may take the form of research back-up or contribution to the legal costs of the artist, where it considers that the decision of the court may have wide-reaching implications for its constituency.

Artists advisory services - SAS will provide assistance to emerging artists in taking their works past the development stage and introducing them to the market. This could include referrals of a writer to an appropriate publisher, and an artist to a gallery.

Web-based services - In addition to the general information contained on the SAS website, a number of discussion groups are maintained to enable members to share their view/experiences on many issues. The SAS website may feature the works of a particular artist in the form of a virtual exhibition as well as enable individual members to establish a link to their own sites. SAS does not charge for members to include website.

Grants administration - SAS is involved in the administration of a number of small grants programs covering various art forms.

Sector analysis - Through its contacts within the academic community, SAS is able to commission or undertake different research projects. These may be used to assist governments in planning policy on the arts sector or the research might be used as a lobbying tool or catalyst for reform within the sector (or one particular area of it).

In carrying out its activities, SAS has a small core of employees. Many of its activities are performed by academic staff of universities or similar bodies around the country, under a partnership program. In some instances, outside consultants are engaged to perform a particular assignment under a contract arrangement with SAS.

SAS receives funding from a number of different government agencies at both the Federal and State levels. The premises it uses are owned by a university and are provided on an unconditional basis (subject to normal occupancy conditions requiring SAS to maintain the premises in good order and keep insurance). SAS receives some sponsorship support, both by cash injection and the provision of goods or services in kind. This support is minimal.

SAS charges its members an annual levy. As SAS has evolved from a number of different institutions, its membership fee policy is somewhat confusing (given that different antecedent bodies had different year ends). The current practice is that a member paying a subscription at any point in the calender year receives membership for one year from that date. Thus there is no general membership renewal time. This is administratively difficult, particularly when dealing with members who allow their membership to lapse or are late in paying for renewals. Membership fees are set in advance of the calendar year, and relate to any renewal occurring during that calender year.

It is compulsory to register for GST if the annual turnover is greater than $50,000 ($100,000 for non-profit organisations).

The turnover of SAS is above this threshold amount, so SAS will be required to register for the GST.

The impact of the GST on the activities of the SAS may be summarised as follows:

Activity	Implications
Australia Council and other government grants	As the grants are paid by the funding bodies as consideration they are taxable supplies for the purposes of the GST legislation. Accordingly, 1/11th of the amount of the grant should be accounted to the ATO. The amount to be remitted to the ATO may be offset by input tax credits arising from GST charged to SAS on expenses it incurs. Note that salary and wages, a major expense of SAS, would not generate any input tax credits. As SAS is registered, it would be expected that the grants received from government agencies will be topped up. Thus, after the GST on the grant is remitted to the ATO, the net cash position of SAS should be preserved, when compared to the pre-GST situation.
Membership fees	The fees will be subject to GST. SAS would have to remit 1/11th of the proceeds to ATO as the GST collected on the supply. In the year of introduction of GST, SAS will need to determine how much of the subscription period is after 1 July 2000 and calculate the GST as 10% of the post 1 July 2000 component. Due to the complex manner in which SAS treats its membership fees, this would be a difficult process, as it would be necessary to analyse every membership to ascertain how much unexpired membership exists at 30 June 2000. This would be an administrative burden on the organisation in the transition year. SAS should consider normalising its membership period.
Publication sales	Sales will be subject to GST whether they are made to members or the general public. Therefore, 1/11th of the sale proceeds is GST to be accounted for to the ATO.
Seminar fees	These fees charged would be subject to GST and 1/11th of the amount charged would need to be accounted for to the ATO. If a seminar were provided without charge, there is no consideration received in respect of the supply and accordingly, the free seminar is not subject to GST. If SAS obtains a determination from the Education Minister that the course is an "adult and community education course" it may come under the exclusions within the GST Act and therefore be GST-free. In that situation, no GST would be charged by SAS. In all three situations described above, SAS would be entitled to input tax credits in respect of any GST paid in connection with the seminars.
Interest received	No GST applies to interest received.
Donated premises	As the provision of the premises is unconditional, there is no supply being made by SAS to the university. Accordingly, there can be no taxable supply for GST to attach to.
Sponsorship (cash)	Sponsorships received will be subject to GST. SAS would have to remit 1/11th of the income to the ATO as the GST collected on the supply. As the sponsor (assuming GST registered) would obtain an input tax credit, the sponsor should consider topping up the sponsorship for the GST component to protect the net position of SAS.
Sponsorship (in kind)	GST would be payable in respect of the advertising provided by SAS to the sponsors. SAS would need to remit GST although no cash was received. At the same time, SAS would be entitled to an input tax credit for 10% of the value of the goods or services provided by the sponsors. These two amounts could offset one another, leaving SAS in a nil net position (although the timing may not correlate, causing cash flow implications).

Activity	Implications
Consultants/contractors hired	If the consultant/contractor is registered for GST purposes, the SAS would get input tax credits for GST charged by the consultant. If the consultant were not registered, it would be necessary to consider whether the person be treated as a consultant or employee. Assuming the person is a consultant, the consultant must quote their ABN. Failure to quote an ABN would oblige the SAS to withhold tax at 48.5% from the payment, under the PAYG provisions. This would have serious cash-flow implications for the contractor.
General expenses	Where an expense incurred by SAS has a GST component, SAS should get input tax credits. An exception to the rule relates to items which are non-deductible to SAS.