

a r t ^ε f a c t s
THE ARTS & TAX

a practical tax workbook for the arts sector

Answers to Workbook Questions



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Workbook Answers to the Arts and Facts

Workshop Notes – Page 69 GST Skills Practice 1. What is GST?

What do these acronyms stand for?

GST: Goods and Services Tax
ATO: Australian Taxation Office
BAS: Business Activity Statement
ABN: Australian Business Number
TFN: Tax File Number

What is the GST tax rate?

10%

HINT:

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

What are the 4 sorts of supply under GST?

1. Taxable Supplies
2. GST Free supplies
3. Input taxed supplies
4. Supply by a business that is not-registered for GST

What are the 4 elements of a taxable supply?

1. Registered entity
2. For consideration
3. In the course of an enterprise
4. Connected with Australia

Who pays GST to the ATO?

Each registered entity

You are registered for GST. If your total grant is \$66,000, how much GST do you pay to the ATO?
\$6,000 (if you are registered).

Who can claim input tax credits?

A registered entity that makes creditable acquisitions.

If you pay \$110 for a creditable acquisition, how much input tax credit can you claim from the ATO?
\$10

Workshop Notes - Page 70 - What is GST contd.

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What is annual turnover?

The value of supplies made less supplies which:

- a. are input taxed
- b. have no consideration
- c. are not in connection with your enterprise
- d. are not in connection with Australia

If turnover is more than \$50,000 you must register for GST.

(Note: If you are a non-profit organisation the turnover threshold is \$100,000.)

What are the two GST accounting methods?

1. **Cash Accounting** which means you are liable for GST in the tax period that the cash is received and entitled to input tax credits in the tax period when the cash is paid.
2. **Non Cash Accounting** which means you are liable for GST in the period when you raise an accounting invoice or receive part of the cash (whichever is earlier) and are entitled to input tax credits in the tax invoice (which is the earlier of receiving an accounting invoice or paying part of the consideration).

Who can choose the GST accounting method they use?

Entities with an annual turnover less than \$1 million and all charities and deductible gift recipients.

How often do you have to report to the ATO?

Businesses with a turnover less than \$20 million can choose quarterly or monthly tax periods.

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

Within 21 days after the end of your chosen tax period.

How long must you stay registered for GST?

At least 12 months.

When will you need a Tax Invoice?

If something costs more than \$55 (including GST) you need a tax invoice as a customer to claim an input tax credits and as a supplier, to provide to a customer who requests one.

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Workshop Notes - Page 70 - What is GST contd.

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

21 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?** 21 October.

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 **\$10**

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Workshop Notes - Page 74 - Donations

Examples

Your arts organisation is bumping in a show at the Cummins Theatre in Merridin. A Merridin resident and theatre buff, Richard, offers to lend you his ute to assist with the bump in. You say thank you, take the ute and bump in your show. After using the ute, you provide Richard and some of his friends with free tickets to the show.

Gift or supply? Gift, see page 201 of this workbook for explanation.

Your organisation is bumping in a show at the Cummins Theatre in Merridin. Richard offers to lend you his ute to assist with the bump in return for a couple of free tickets. You say thank you, take the ute and bump in your show.

Gift or supply? Supply, see page 201 of this workbook for explanation.

An arts festival is given \$5,000 cash sponsorship by a local accounting firm. The firm has made no conditions on the provision of the “sponsorship”, nor has it requested anything in return.

Gift or supply? Gift, see page 202 of this workbook for explanation.

An arts festival is given a \$5,000 gift by a local accounting firm on the basis that an advertisement of the firm’s services will appear on all promotional material.

Gift or supply? Supply, see page 202 of this workbook for explanation.

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Workshop Notes - Page 76 - Sponsorship

Wheatfields Contemporary Art Space is registered for GST. The art space receives sponsorship of \$22,000 from a local rural supplies firm in return for signage.

Does Art Space have a GST liability? Yes

For how much? \$2,000

What is the rural supplies firm's GST responsibility?

To obtain a tax invoice in order to claim input tax credits.

What if you are not registered for the GST?

What happens to the actual amount of the sponsorship received by you?

No GST payable – it is fully assessable for income tax unless you are exempt.

Do you have to account for any part of it as GST? No.

What might happen to the purchasing power of your sponsorship after 1 July 2000? Depending on the change in prices of the things bought – may decrease.

What impact would your not being registered have on your sponsor?

No input tax credits. If you increase the sponsorship request, the sponsor will be out of pocket by the extra amount. The sponsor still claims a full income tax deduction.

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Workshop Notes - Page 77 – Sponsorship Contd

A theatre is given timber by the local hardware store to rebuild a stage. In return, the theatre is providing free tickets to its next production and including advertising for the hardware store in all promotional material.

What tax invoices are required, for what, from whom, to whom?

Nominate the amounts to be included on the tax invoices, then answer the following:

The hardware store is liable to the ATO for **\$500** GST collected on its invoice for **the supply of timber**, and is entitled to a **\$500** input tax credit on the invoice provided by the theatre for **tickets and advertising**. The GST collected less the input tax credit = **\$ NIL**.

The ATO owes the hardware store **\$ NIL**. The hardware store should remit **\$ NIL** to the ATO.

The theatre is liable to the ATO for **\$500** GST collected on its invoice for **the supply of tickets and advertising**, and is entitled to a **\$500** input tax credit on the invoice provided by the hardware store for **timber**.

The GST collected less the input tax credit = **\$ NIL**. The ATO owes the theatre **\$ NIL**. The theatre should remit **\$ NIL** to the ATO.

When should you and your sponsor provide each other with your tax invoices?

At the time of the first transaction eg. If the timber is supplied today but the tickets and advertising are for a show a month from now, exchange the tax invoices today.

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Workshop Notes – Page 78 – Sponsorship Contd

What if you are not registered for GST?

If you are not registered for GST, what are the implications in the following sponsorship arrangement?

A theatre is given timber by the local hardware store to rebuild a stage. In return, the theatre is providing free tickets to its next production and including advertising for the hardware store in all promotional material. The theatre is not registered for GST.

The hardware store and the theatre agree that the GST inclusive market value of the arrangement is \$5,500.

The theatre is not liable for GST on consideration received, nor is the theatre entitled to input tax credits.

The hardware store (though registered for GST) has not paid any GST, therefore it is not entitled to any input tax credits. However, even though the theatre is not registered for GST, the hardware store is liable for GST on consideration received. Accordingly, the hardware store has a GST liability of \$500 but with no input tax credits.

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Workshop Notes - Page 80 - Fundraising

Cash Prize

You are registered for the GST and you run a fundraising raffle with a cash only prize of \$550. A total of \$1,210 was collected from the raffle.

What is the margin on the raffle?	\$660
What is the amount of GST payable?	\$60
How much do you make on the raffle?	\$600

Non-cash Prize

You raffle a television purchased for \$550. In purchasing the television, you paid GST of \$50 to the television store. A total of \$1,210 was collected from the raffle.

What is your margin?	\$1,210
What is the amount of GST?	\$110 less \$50 input tax credits = \$60
What GST is payable on the raffle?	\$60
How much do you make on the raffle?	\$600

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Workshop Notes - Page 82 - Ticketing

You provide free tickets to a number of journalists and theatre critics to your show in the hope that they will attend and write something favourable.

Are the tickets subject to GST? No

You provide free tickets to a journalist and for a number of his or her friends in exchange for an article to be written and placed in an agreed publication.

Are the tickets subject to GST? Yes

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Workshop Notes – Page 84 - Subscriptions

You are City Opera Company. What are your options if you have received payments for a subscription series of 4 performances, 2 before and 2 after 1 July 2000, and you have not included GST in the price of the subscriptions?

What is the amount of any GST liability? $1/11^{\text{th}}$ of the portion of the subscription price for post 1/7/00

Who will meet that GST liability? City Opera Company

What happens if the subscription is for any four performances in the calendar year but City Opera will not know when a subscriber will be attending a performance until they order a ticket?

The liability for GST is $1/11^{\text{th}}$ of the consideration received for the post 30/6/00 events. The question of what price to charge “is determined by the ACCC”.

The ACCC has permitted the averaging of GST across pre and post 1 July activities where such cannot be identified at the time the consideration is collected.

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Workshop Notes – Page 86 - Pricing

You are a local theatre group and are registered for GST. Pre GST, the price charged by you for a theatre ticket was \$20. The \$20 was made up of \$15 production costs, with a \$5 mark-up to go towards maintenance of the theatre and other costs of the theatre group.

Post GST, production costs are \$14, due to the abolition of wholesale sales tax.

What is the new value of your tickets?	\$19.00
What GST is payable on that value?	\$1.90
What is the GST inclusive price of your tickets after GST?	\$20.90

What are the answers to the above example if you are not registered for the GST?

Post GST the price will be \$19.00 – No GST will be payable. The \$15.00 in production costs may increase or decrease after 30/6/00.

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Workshop Notes - Page 88 - Art Sales on Consignment

You are registered for GST.

The Red Gallery takes 3 of your paintings on consignment. One sells for \$110,000.

Is there GST payable on placement of the paintings on consignment?

No, there is no consideration received at that point.

Is there any GST in relation to the return of unsold works to the artist?

No. No consideration has been received.

Who is responsible for the GST on the sale of the painting? The artist.

What is the GST liability on the sale of \$110,000? $1/11^{\text{th}} \times \$110,000 = \$10,000$

Red Gallery's commission on the sale was agreed at 30% of the GST exclusive sale price. The agreement also provides that the amount to be paid to you is to be grossed up for GST.

How much is paid to you by Red Gallery? \$77,000

What are Red Gallery's GST liabilities and entitlements to input tax credits?

Liability = $1/11^{\text{th}} \times \$33,000 = \$3,000$ input tax credits will be allowable for GST on other costs.

What are your GST liabilities and entitlements to input tax credits?

ITC = $1/11^{\text{th}} \times \$33,000 = \$3,000$. GST liability = $1/11^{\text{th}} \times \$110,000 = \$10,000$.

What about the tax invoices? The gallery will provide you with a tax invoice for the commission you have paid. You will need this to claim input tax credits.

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Workshop Notes - Page 90 - Commissions

You are a painter and are registered for the GST. You have sold a painting through your local gallery for \$1,100 on consignment. The gallery is paid a commission for selling the painting of 20%. The gallery is registered for GST.

What are the GST liabilities and input tax credit entitlements of you and the gallery?

$$\begin{aligned}\text{Your Liability} &= 1/11^{\text{th}} \times \$1,100 &= \$100 \\ \text{Credit } 1/11^{\text{th}} \times (20\% \times \$1,100) &= \$20 \\ \text{Net} &= \$80\end{aligned}$$

$$\begin{aligned}\text{Gallery Liability} &= 1/11^{\text{th}} \times (20\% \times \$1,100) = \$20 \\ \text{Credit} &= \text{GST paid on other goods}\end{aligned}$$

What tax invoices need to be provided by whom, to whom and for what?

The gallery may issue a tax invoice:

- (a) in the artist's name using the artist's ABN, or
- (b) in its own name using its own ABN. The gallery will need to ensure that it can identify sales made on commission (as the sale component is not the gallery's income, only the commission received is the gallery's income).

The gallery will issue you a with a tax invoice in relation to the commission.

What differences would there be in your answers to the above if you were not GST registered?

No GST liability on the sale.

No input tax credit re: GST paid.

No requirement to get a tax invoice from the gallery.

Note:

Recent amendments (Sub-division 153-B of the GST Act) allow agents to treat transactions made on behalf of principals as if they were their own transactions. For example, an item provided by a principal to an agent is treated as a sale to the agent. The principal pays a GST liability and the agent treats the supply as an acquisition and claim input tax credits. When the agent sells the item, the agent treats the sale as a taxable supply made by itself. The agent pays the GST on the sale and claims an input tax credits on the acquisition.

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Workshop Notes - Page 91 - Royalties

- **Pre GST, you are entitled to royalties of 25% on the production of a play you have written. If income from the performance is \$20,000, you are entitled to \$5,000 and the producer would receive \$15,000.**
- **Post GST, what would the GST inclusive income from the production be if the producer is registered and has increased prices by 10%?**

If the contract does not specify whether the royalty comes from the GST – inclusive or exclusive figures, then it should be based on “price” or “income” i.e. the GST inclusive amount. Therefore you will be entitled to \$5,500.

If you are **not registered** for the GST, and your 25% royalty is calculated on the GST inclusive income of the production:

How much would you receive? \$5,500

How much GST does the producer owe? In GST – presuming the producer was selling tickets - \$2,000

\$500 (less)
\$1,500

What would the producer make?

\$22,000 (Income)
\$5,500 (less Royalty)
\$2,000 (less GST)
\$14,500
\$500 (plus input tax credits)
\$15,000

Alternatively, if your 25% royalty is calculated on the GST exclusive income of \$20,000:

How much would you receive?

\$5,000 (but you wouldn't agree to 25% of the GST exclusive amount without having a “plus GST” clause).

How much would the producer make after accounting for GST?

\$22,000 (Income)
\$2,000 (less GST)
\$5,000 (less Royalty)
\$15,000
\$455 (plus input tax credits)
\$15,455

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Workshop Notes - Page 93 - Contractors

The Winery Jazz Festival contracts a jazz band to provide services at its festival. The band charges the festival \$660, including \$60 GST, per day.

What amount does the band include on its tax invoice for the three days?
\$1,980

Who has a GST liability, and for how much? The band for $\$60 \times 3 = \$1,980$

Who has an input tax credit, and for how much? The festival for the \$180

What happens if you are reimbursing the costs of someone who is not an employee or agent?

The River Blues Festival has been supported for years by the volunteer work of a dedicated local, Rhonda. Rhonda has always coordinated staging, accommodation, catering, builders, and other housekeeping tasks essential to the Festival's success. For years, the Festival has always made a payment to Rhonda as a contribution to her costs. The payment has never been specifically allocated to costs incurred by Rhonda personally, and is unlikely to actually cover the total of those costs in any event.

Rhonda is not on the books as an employee of the River Blues Festival.

What is the position if Rhonda is a contractor?

The payment forms payment for service and is subject to GST if Rhonda is registered.

What is the position if Rhonda has been acting as an agent of the Festival?

The festival is entitled to the input tax credit for the GST included in the cash.

The Festival may consider making Rhonda an employee, but in that case there would be legal requirements businesses salary, worker's compensation and superannuation at least that would need to be addressed.

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Workshop Notes – Page 94 – Contractors Contd.

What happens if you are both an employee for one organisation, and a contractor to another or others?

Dom is a lighting designer employed part-time by Country Symphony. At the same time, Dom undertakes casual lighting work with other companies. Dom is both an employee of Country Symphony, and an individual carrying on an enterprise with the other companies.

What are the PAYG and GST implications and options in Dom's two forms of employment?

As an employee, Dom is not liable for GST for the services to his employer. He needs no ABN.

As a contractor, Dom may need to register for GST, i.e. if his turnover is \$50,000 or more, Dom will need an ABN or else 48.5% of his payment will be withheld.

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Workshop Notes - Page 95 – Artist’s Agents Contd.

Is there anything to watch out for if my agent, or the person I call my agent, always collects the money on any deal and forwards the proceeds on to me after taking his or her commission?

Your agent receives \$605 from the advertising firm on 14 October. The agent draws his or her commission on that payment on 1 November, and sends you the proceeds on 14 November. If the contract is between you and the advertising firm, either direct or because your agent has entered into the contract on your behalf, when are you liable to account for GST?

When have you actually received payment for your services? 14 October.

When are you entitled to claim your input tax credit? In the tax period including the 1 November.

If you have nominated a monthly tax period what is the effect of the above dates? You are liable for GST for October on an amount including the \$605. Input tax credits will be available in November.

Note:

The ATO has indicated that where an agent receives the payment on behalf of a principal (i.e. the principal is liable for GST), the GST liability will arise in the tax period in which, during the normal course of business, the agent advises the principal on the details of the sale. This would mean that the liability date and the relevant date for the input tax credit is 14 November.

(Please refer to Page 90 – Commissions).

The agent and the principal may make an agreement so that goods owned by the principal and sold through the agent can be treated as a principal to principal transaction rather than a principal to agent transaction.