

# 5

## ACTIONS



# ACTIONS

## 5.1

### The way forward - management of risk

The Australia Council's workshops and this workbook attempt to provide you with an overview of the general Tax issues which will be faced by the arts industry from now and into the GST period, and how best to deal with these in your business. This section provides you with an overview of the major risk factors you will need to contemplate in the process of becoming ready for The New Tax System, and action decisions which should assist you in becoming prepared.

Arts businesses or enterprises which do not implement adequate processes to ensure compliance with the legislation, or which do not ensure timely compliance, run several risks, which include at least the following:

1. under or overpayment of tax because of incorrect calculations or incorrect classification of inputs or outputs - causes can include inadequate recording systems, untrained staff, etc
2. opportunity costs due to under-claiming of input tax credits
3. opportunity costs due to sub-optimal cash flow where credits are not claimed as soon as possible
4. potential cash flow problems and consequential incurring of borrowing costs, where credits are not claimed in a timely fashion
5. budgetary problems where insufficient provision has been made in contracts to reflect the GST that must be accounted for
6. legislative penalties for over-claiming credits or not accounting for sufficient GST
7. penalties imposed by the ACCC where outputs are priced in a manner inconsistent with tax reform
8. change management risks, such as inadequate training

This list relates to the risks associated with failing to act quickly enough to put in place appropriate processes and systems. However, other risks also need to be considered and kept in mind.

The nature of the GST's implementation is that of an 'evolving process' and further tax issues, which directly and indirectly impact on your businesses, will continue to be identified throughout the period leading up to 1 July 2000.

**GST CHECKLIST 1: Getting started**

**Who will be responsible for our GST action plan?**

Have you registered or will you register for GST? Use this checklist to help you work through the registration decision.

**1. Work out your annual turnover**

|   |         |      |
|---|---------|------|
| <b>Total income</b><br>(must include "in kind" amount as well) for the period | 1999 to | 2000 |
|   | \$      |      |

Take away the value of:

|  |    |
|--|----|
| > income that was <i>not a supply</i> (eg bank interest/ loans)                  | \$ |
| > supplies that were <i>not for consideration</i> (eg donations cash or in kind) | \$ |
| > supplies <i>not in connection with an enterprise</i>                           | \$ |
| > supplies that will be <i>input taxed under GST</i>                             | \$ |

|                                 |    |
|---------------------------------|----|
| <b>Your annual turnover is:</b> | \$ |
|---------------------------------|----|

- > *If annual turnover is greater than \$50,000 (\$100,000, for non-profit organisations you **must** register*
- > *If your annual turnover is only over this year because of a one-off grant you don't have to register, go to step 3.*
- > *If turnover is less than \$50,000 (or \$100,000) or if you are a non-profit organisation you **can decide** whether or not to register.*

Yes to register, go to 3.

No to register, go to 6.

Undecided, go to 2.

**2. Assess the benefits of registering or not registering**

|  |        |   |
|--|--------|---|
| Are your supplies mostly GST free? (eg 'non commercial activities of a charity')                           | Approx | % |
| > <i>You benefit from registering because you can claim input tax credits for creditable supplies</i>      |        |   |
| Are your supplies mostly input taxed? (eg 'commercial' residential rent)                                   | Approx | % |
| > <i>You may not benefit from registering because you cannot claim input tax credits</i>                   |        |   |
| Are your supplies mostly taxable?<br>(eg grants for salaries, administration, support services)            | Approx | % |
| > <i>You can recover the GST payment from your funding body and claim input tax credits for the supply</i> |        |   |

|  |        |   |
|--|--------|---|
| Are your suppliers registered entities?                                      | Approx | % |
| > <i>You may benefit from registering</i>                                    |        |   |
| Are your supplies mostly to consumers?                                       | Approx | % |
| > <i>Registering means charging GST - will the market bear the increase?</i> |        |   |

Yes to register, go to 3.

No to register, go to 6.

### 3. Consider the alternative registration options

|   |
|---|
| Does your business have different registration options? |
| > a single entity?                                      |
| > a member of a group?                                  |
| > a parent entity with branches?                        |
| > a series of separate subentities?                     |
| Which option is best for your organisation?             |

### 4. Which accounting basis to use

Endorsed charitable organisations can choose **either** a cash or accruals accounting system.

|   |
|---|
| Other non-profit organisations can:   |
| > <b>choose</b> if their turnover is less than \$1,000,000                                |
| > <b>must use</b> accruals based accounting if their turnover is greater than \$1,000,000 |

|  |
|--|
| You <b>may</b> choose accruals based accounting if:                                  |
| > you make all or mainly taxable supplies (eg provision of your service for a grant) |
| > you pay for the goods and services you receive on an invoicing system in arrears   |
| > it is the system you use already   |

|  |
|--|
| You <b>may</b> choose cash based accounting if:  |
| > you do not make any (or many) taxable supplies |
| > you pay for goods and services in advance      |
| > it is the system you use already               |

## 5. Decide which tax period to use

You can choose a monthly or quarterly tax period (unless your turnover is greater than \$20,000,000!)

You **may** choose monthly tax periods if:

- > getting refunds quickly is more important to your cash flow than putting off paying GST
- > your systems can cope efficiently and cheaply with more regular reporting

You **may** choose quarterly tax periods if:

- > putting off paying GST is more important to your cash flow than getting refunds quickly
- > less regular reporting is more cost effective and easier to manage

## 6. Register for an ABN

If you do **not** have an ABN, your clients who are registered for GST must withhold the top rate of income tax from any payments they make to you. Businesses which register for ABNs by 31 May 2000 get a \$200 GST Direct Assistance Certificate from the Federal Government.

## 7. Register for GST

Indicate on the application form if you want to apply for endorsement of your charitable status if applicable - you will be sent another form for this.

## 8. Apply for endorsement of charitable status

Apply for status as a Deductible Gift Recipient (DGR) or as an Income Tax Exempt Charity (ITEC) by ticking the box on the ABN application form.

## How GST might impact on your transactions

Use the following planning format to start to understand how GST might impact on you. This is a first analysis of your transactions under GST.

Consider what actions you might need to take to:

- > manage your income and expenditure
- > deal with any problems with suppliers, your funders and benefactors
- > review existing contracts

One form is complete, to show you an example of how the form might be completed for an arts business.

The blank form is for you to write down your own needs. This is just to 'brainstorm' - do not worry about getting everything down here. This will help you focus on key decisions you need to make in terms of each main area of impact and key issues within that area.

**ACTION PLAN - Sample GST plan for an Arts business**

| TRANSACTIONS                            |  | GST IMPACT                                     |   | DECISIONS TO MAKE   |      |            |
|---|--|--|---|---|------|------------|
| Acquisitions/<br>inputs                 | GST<br>Impact                              | Documentation<br>and status of<br>transactions | Decisions<br>to make  | Actions<br>to take  | Who? | When?      |
| Buying the computer and software        | Taxable                                    | Tax Invoice                                    | Should we buy now or after 30 June 2000?<br>What software do we need? | Find out/ring supplier and<br>Talk to accountant about software | Me   | Now        |
| Stationery                              | Taxable                                    | Tax Invoice                                    | Is our supplier registered?   | Find out/ring supplier  | Noah | March 2000 |
| Paying design contractors               | Taxable                                    | Tax Invoice                                    | Are they registered?<br>How will prices for jobs change?              | Ring all our contractors and find out                           | Me   | March 2000 |
| Paying contract office worker           | Taxable                                    | Tax Invoice                                    | Is it better to put Simon on payroll?                                 | Ring ATO hotline  | Kate | Now        |
| Mobile phone contract                   | Taxable                                    | Tax Invoice                                    | Collect valid tax invoice   | Check contract - it goes over 1 July 2000.                      | Me   | Now        |
| Paying office rent, phone & electricity | Taxable                                    | Tax Invoice                                    | Collect valid tax invoices  | —   | —    | —          |
| Vehicle costs                           | Taxable but claims only for business usage | Tax Invoice                                    | Deduct private use and estimate claim                                 | Work out system for recording business use                      | Me   | June 2000  |

For your Arts business

| TRANSACTIONS            |               | GST IMPACT                                     |                      | DECISIONS TO MAKE  |      |       |
|-------------------------|---------------|--|----------------------|--------------------|------|-------|
| Acquisitions/<br>inputs | GST<br>Impact | Documentation<br>and status of<br>transactions | Decisions<br>to make | Actions<br>to take | Who? | When? |
|                         |               |  |                      |                    |      |       |

### Decide what to do next

Structure the way you think through the actions you need to take:

1. income
2. expenditure
3. accounting systems
4. cash flow monitoring
5. contracts

You have already done some thinking and information collection about the possible impact of GST on your organisation.

Work through each area very carefully to:

- > identify all the issues that need dealing with before July
- > prioritise these issues
- > work out what actions you will take to resolve them
- > plan when the action needs to be completed
- > give responsibility for getting each task done to a particular person or team in your organisation

*In each area, focus your decisions on the key issues suggested.*

### Income decisions

When you think about GST income issues you are looking at your business from the angle of you being the supplier of goods and services.

That is, you are looking at how GST will affect the services you provide to your clients, members, customers, sponsors and benefactors.

Remember that for GST, you must think about everyone you supply goods and services to as your customers. These include:

- > your funding bodies and anyone else who gives you money to run your services
- > your members
- > your clients and anyone else to whom you provide goods or services

### FOCUS 1: Our GST liability and charges

Do we have a complete list of all the different sorts of transactions we make as a supplier of goods and services?

What is our GST liability for each type of transaction?

What will we charge for our services under GST, to pass on GST costs and savings appropriately?

## **FOCUS 2: Our systems and processes around income**

Are we able to provide valid Tax Invoices to our clients when required?

Does the way we keep our records make it possible to track the GST effect all our transactions?

Does our accounting system make it easy for us to report our GST liability on our BAS and pay what we owe in the right tax period?

Has income received before 30 June 2000, relating to services being provided after 1 July 2000, been recorded correctly?

## **FOCUS 3: Information and communication about fees and charges**

What information about GST and our GST liability do our clients and members need, and how will we communicate this?

What training do people in our organisation need to help them communicate about GST with our clients and members?

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## 5.3

### CHECKLIST 2: Income decisions

#### 1. What is our GST liability?

Make a complete list of every type of transaction that results in income to you. Group your income-related transactions according to your GST liability - that is, in terms of whether this transaction is a taxable supply, GST-free or input taxed.

You may find that some income categories on your accounts will need to be split between several GST categories. These may need to be further split into taxable, GST-free and input taxed supplies, depending on the impact GST has on your operation.

A few examples are given below. The blank form is for your own information.

#### Sorting your supplies and assessing possible GST effect

| Supply                    | Taxable | GST-free | Input taxed | Supplied to | Effect                    |
|---------------------------|---------|----------|-------------|-------------|---------------------------|
| Grant for core activities | Yes     |          |             | Arts WA     | 10% grant increase agreed |
| Box Office                | Yes     | Perhaps  |             | Public      |                           |
| Workshops                 | Yes     | Perhaps  |             | Members     |                           |
| Artwork                   | Yes     |          |             |             | Negotiate commissions     |
| Memberships               | Yes     | Perhaps  |             | Members     | Research 75% rule         |

| Supply | Taxable | GST-free | Input taxed | Supplied to | Effect |
|--------|---------|----------|-------------|-------------|--------|
|        |         |          |             |             |        |

## 2. What changes will we make to our systems and procedures?

Think about the impact of GST on your systems and procedures - in particular the need for Tax Invoices and new financial reports.

Consider your accounting and information systems.

A few examples are given below. The blank form is for your own information.

| Supply                     | GST   | Systems   | Procedures  |
|----------------------------|---|---|---|
| Grant for support services | Yes   | Need Tax Invoice for supply to another GST registered organisation      |   |
| Tickets                    | Yes (perhaps GST-free if selling organisation is a charity) | Need ticketing system to comply with Tax Invoice                        |   |
| Workshops                  | Yes (perhaps GST-free if selling organisation is a charity) | Need ticketing system to comply with Tax Invoice                        |   |
| Artworks                   | Yes   | Issue Tax Invoice to customer. Pay Tax Invoice for commission on sales. | Provide proceeds ASAP to artists with Tax Invoice for commission and copy of that to customer and to artist |
| Memberships                | Yes   | Renewal notice to be in form of Tax Invoice                             | Issue Tax Invoice with renewal notice   |

| Supply | GST | Systems | Procedures |
|--------|-----|---------|------------|
|        |     |         |            |

**3. Who needs to know what, why, when and how?**

Think about how you communicate about the impact of GST on your supplies to your community and clients. Staff, Board members and members of your organisation may need detailed information.

Some key staff and Board members should receive training to make sure they fully understand the impact of GST.

| GST impact on income  | Staff, Board, members etc | Our customers, clients etc | NOTES - why, when, where, how? |
|---|---------------------------|----------------------------|--------------------------------|
| How our charges, fees, grants and donations are affected by GST           | ✓                         | ✓                          |                                |
| How to work out the amount of GST we have to pay to the ATO               | ✓                         |                            |                                |
| How to work out when the GST must be paid for each sort of taxable supply | ✓                         |                            |                                |
| When we have to provide Tax Invoices and what they look like              | ✓                         |                            |                                |

Transitional issues - have you checked the GST impact on:

- > Contracts that start before and end after the GST implementation date, 1 July 2000? (eg fee for service arrangements with other organisations)
- > Wholesale Sales Tax credits for items you have bought to sell to others and still hold at 30 June 2000? (this does not apply if you are a Sales Tax Exempt Public Benevolent Institution)

### Expenditure decisions

When you think about GST expenditure issues you look at your arts business from the angle of you as a customer.

That is, you look at how GST will affect what you buy from your suppliers. These acquisitions are used to run your organisation and provide your services.

Your suppliers include:

- > contract designers, performers
- > suppliers of art materials, eg paints, canvases, clay etc
- > the local councils to whom you pay rates

- > the water board
- > the landlords of properties you rent (including government departments and private owners)
- > telephone and electricity suppliers
- > stationery supplier
- > your accountant and lawyer
- > your computer supplier and service engineer
- > anyone who works for you on a contract basis
- > any organisation you are a member of (eg your peak body)
- > people and organisations who provide you with training, publications, etc

#### **FOCUS 4: How GST will affect our costs**

How will the prices we pay for goods and services be affected?

Can we claim input tax credits?

How will we ensure that suppliers pass on the cost savings from the abolition of sales tax?

Will we approach new suppliers for quotes on post-GST prices?

Will we delay or bring forward some purchases depending on expected price movements after GST?

#### **FOCUS 5: Our systems and processes around expenditure**

Will our suppliers provide us with valid Tax Invoices?

Does the way we keep our records make it possible to track the GST effect?

Does our accounting system make it easy for us to claim our input tax credits in the right tax period?

Have we recorded correctly purchases made or paid for before 30 June 2000 and contracts spanning the GST implementation date?

#### **FOCUS 6: Information and communication about costs**

What will happen to the prices that our suppliers charge?

Should we negotiate with our suppliers or find new ones?

Do the people who process our documentation and prepare our accounts have enough GST knowledge to do their job?

# ACTIONS

## 5.4

### GST CHECKLIST 3: Expenditure decisions

#### 1. How will GST affect our costs?

Make a list of every type of transaction that results in expenditure to your business. Group your expenditure according to the type of supply you use it for - that is, do you use it to make a taxable, GST-free or input taxed supply. This helps you work out when you made creditable acquisitions that you can claim input tax credits for.

You may find that some expenditure items on your accounts need to be split according to the GST impact. Identify whether your GST costs can be claimed back as input tax credits or not. Is the supply:

- > a non-commercial activity of a charity and therefore GST-free , then you **can** claim
- > GST-free because it is a supply specifically identified as being exempt from GST
- > input taxed because the rent paid is more than 75% of the market value, then you **cannot** claim

Sorting acquisitions or inputs:

- > which items are taxable? (GST can only be included on a taxable supply)
- > are we paying the right price? (ACCC has guidelines for this)
- > can we claim back input tax credits? (if the GST inclusive item is a creditable acquisition)

| Acquisition     | Taxable | Non taxable | Supplier              | Effect on price                                |
|-----------------|---------|-------------|-----------------------|--|
| Accountant fees | ✓       |             | Arcadia Books Pty Ltd | Fees will increase by 10%                      |
| Contractors     | ✓       |             | Bell'Arte Design      | Overall effect on prices estimated 5% increase |

| Acquisition | Taxable | Non taxable | Supplier | Effect on price |
|-------------|---------|-------------|----------|-----------------|
|             |         |             |          |                 |

The GST readiness of our suppliers:

- > list all the taxable supplies you buy and who supplies them to you
- > are they registered for GST? (if not, they cannot include GST, but may increase prices to cover costs)
- > have they got an ABN? (if not you have to submit 48.5% of their invoice price to the ATO)

| Taxable Items       | Supplier              | Registration       | ABN   |
|---------------------|-----------------------|--------------------|---|
| Accounting Services | Arcadia Books Pty Ltd | Yes/ <del>No</del> | 44333 222 111   |
| Contractor          | Bell'Arte Design      | <del>Yes</del> /No | hasn't got one - told him about the 48.5% withholding tax |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |
|                     |                       | Yes/No             |   |

## 2. What changes do we need to make to our systems and procedures?

For each type of transaction you listed, think about the GST impact on your systems and procedures - in particular the need for Tax Invoices and new ways of making financial reports.

To maximise the amount we can claim back as input tax credits:

### *Source documents*

- > When GST is included in the price, does our supplier provide us with a valid Tax Invoice as a matter of routine or within 28 days of us asking for one? (we need this to claim input tax credits)

### *Calculations of tax credits you can claim*

- > Are there any taxable supplies we cannot claim input tax credits for? (this will increase our operating costs)
- > Do we keep easy-to-access records of all calculations for input tax credits? (we need this for the ATO)
- > Do we keep easy-to-use records of how supplies are used in our organisation? (we need this to make the claim for the right amount and in the right tax period)
- > Do we monitor the way we use supplies, so we can adjust our input tax credits if we have over or under claimed in any period?

### *Prices*

- > Are our suppliers' price rises fair? (check with the ACCC or the relevant trade or professional body)
- > Is there anything about GST in our existing or new contracts?
- > Can we negotiate the price or change supplier where increases are unfair?

### Input tax credit calculation (sample form)

This example shows a possible format for calculating input tax credits for taxable supplies. It's very complicated because the range of variables are quite large. Keep your calculation with the cheque requisition and tax invoice.

| Input tax credit calculation   | for Cheque #                         | Date     |
|--|--------------------------------------|----------|
| Is there a Tax Invoice for this payment?   |                                      | YES / NO |
| <i>If NO we cannot claim input tax credit</i>  |                                      |          |
| What is the GST amount shown on the Tax Invoice?   |                                      | \$ (a)   |
| How much of this supply was used in the business of running our organisation and providing our services? | Business use                         | % (b)    |
| <i>only this portion can be claimed as an input tax credit</i>   |                                      |          |
|  | Private use                          | %        |
|  |                                      | = 100 %  |
|  | (a) x (b) = \$                       | (c)      |
| <i>This is the GST amount spent on business use</i>  |                                      |          |
| What portion of this business use can be attributed to   | Making a taxable or GST-free supply? | % (d)    |
| <i>only this portion can be claimed as an input tax credit</i>   |                                      |          |
|  | making an input taxed supply?        | %        |
|  |                                      | = 100 %  |
|  | (c) x (d) = \$                       | (e)      |

*This is the GST amount that can be claimed as an input tax credit*

#### Tax period and adjustments

- > cash-based accounting: within the period containing the date of the payment
- > accruals-based accounting: within the period when the transaction was made, even if payment falls in a different period

|   |          |           |
|---|----------|-----------|
| When was the transaction made?                          | Date:    |           |
| Tax period in which claim should be made is therefore : |          |           |
| Is an adjustment needed?                                | Yes / No | Amount \$ |

### 3. Who needs to know what, why, when and how?

#### How will you communicate about GST to your suppliers?

Staff, Board members and members of your organisation may need quite detailed information about the overall effect of GST on your expenditure. Some key staff and Board members should receive training to make sure they fully understand the impact of GST on your expenditure.

| GST impact on expenditure  | Staff, Board, members etc | Our suppliers | NOTES - why, when, where, how? |
|--|---------------------------|---------------|--------------------------------|
| What will happen to the prices that our suppliers charge? What response will we make to price rises? | ✓                         | ✓             |                                |
| When must a Tax Invoice be provided by our supplier  | ✓                         | ✓             |                                |
| How we will check the details on and store Tax Invoices  | ✓                         |               |                                |
| How we will work out the amount and timing of claims for input tax credits to the ATO                | ✓                         |               |                                |

Have you checked the GST impact on:

- > Contracts that start before and end after the GST implementation date, 1 July 2000?
- > Wholesale Sales Tax credits and adjustment for GST on items you have bought before 30 June 2000 but are not received until after the GST implementation date, 1 July 2000? (eg. computer or stationery items you paid for in June but are delivered to you in July. If such items are ordered before 1 July 2000 but are not delivered until after 1 July 2000, GST applies. Depending on your contract the price may increase to add GST. If you paid sales tax on these goods prior to 1 July 2000, but did not receive the goods until after 1 July 2000, then the price should be adjusted by the supplier to exclude sales tax).

### **Accounting systems decisions**

When you think about new tax accounting systems decisions, you are looking at your arts organisation from the angle of keeping financial records. That is, how you identify, record, sort and report financial information. You need to assess the suitability of your accounting systems for GST, and decide what changes you need to make to work efficiently under GST.

#### **FOCUS 7: Our recording routines**

What changes do we need to make to our Chart of Accounts?

Who will draw up a list of our fees and charges for everyone to use?

How and when can we train everyone who handles documentation for the business to recognise a Tax Invoice?

What procedure do we need for checking Tax Invoices we receive?

How will we know which customers need Tax Invoices from us?

#### **FOCUS 8: Our source documents**

How will we make sure our Tax Invoices are both valid and suitable for our business?

When will we prepare a supply of Tax Invoices ready to use?

Who will check with our suppliers to make sure they will supply valid Tax Invoices?

#### **FOCUS 9: GST reporting**

How will we complete our BAS quickly, easily and without errors at the end of every tax period?

Who will do this reporting?

How will we know what information we need to complete the BAS and where it will be stored?

#### **FOCUS 10: Our information systems**

Do we need to make changes to our bookkeeping system?

What help do we need to do this?

Would it help to make changes to our information system?

What help do we need to do this?

## GST CHECKLIST 4: Accounting system decisions

| TASKS   | NOTES |
|---|-------|
| <b>1. Our recording routines</b>  |       |
| <p>Review our Chart of Accounts</p> <p>Produce a list of fees and charges for everyone to use</p> <p>Establish a routine to check and file Tax Invoices we receive</p> <p>Check which customers will need Tax Invoices from us.</p>   |       |
| <b>2. Our source documents</b>  |       |
| <p>Design valid Tax Invoices suitable for our organisation (follow design in the ATO's "Arts and Culture and The New Tax System" booklet)</p> <p>Prepare a supply of Tax Invoices ready to use</p> <p>Check with our suppliers to make sure they will supply valid Tax Invoices</p>   |       |
| <b>3. Reporting our GST liability and claims</b>  |       |
| <p>Know what information we need to complete the BAS</p> <p>Decide how we will complete our BAS easily, on time (within 21 days) and without errors at the end of every tax period</p> <p>Use a standard format to calculate our income tax credits accurately</p> <p>Determine who will do this reporting</p> <p>Know how to make adjustments to the BAS</p> |       |
| <b>4. Our accounting and information systems</b>  |       |
| <p>Do we have to make changes to our accounting system? What help do we need to do this?</p> <p>Do we have to make changes to our information system? What help do we need to do this?</p> <p>What training do we need to provide to staff and Board members who handle financial documents?</p>  |       |

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## 5.6

### CHECKLIST 5 : Changes to our accounting system

#### **Paper-based bookkeeping system**

- > add extra columns to show GST amount paid and claimed, and whether a tax invoice was received to comply with BAS requirements will need to be a little more - see record keeping book pages 27 & 28
- > set up a new Chart of Accounts, to include categories for taxable, GST-free and input taxed supplies, with help from our accountant
- > find out how GST will be treated in our Balance Sheet and Income and Expenditure Statement - check with the Australian Society of Certified Practising Accountants (ASCPA) or the Institute of Chartered Accountants in Australia (ICAA)

#### **Computer-based system**

- > find out from our funding bodies how GST will be treated in our Balance Sheet and Income and Expenditure Statement
- > confirm that our accounting package can create our new Chart of Accounts automatically
- > check that our software complies with how GST will be treated in our Balance Sheet and Income and Expenditure Statement

**CHECKLIST 6: Can we create the following financial reports****Can our accounts system give us the information we need for our BAS?**

- > Total taxable supplies made, separated into capital and revenue items
- > Total GST-free supplies made, separated into capital and revenue items
- > Total input taxed supplies made, separated into capital and revenue items
- > Total taxable supplies received, separated into capital and revenue items
- > Total GST-free supplies received, separated into capital and revenue items
- > Total input taxed supplies received, separated into capital and revenue items
- > GST charged to, and collected from clients/funders which is payable to the ATO
- > GST paid to suppliers of goods and services for which an input tax credit is due from the ATO.
- > Tax withheld from payments made to suppliers without an ABN
- > PAYG withheld from salaries and wages
- > Fringe Benefits Tax (FBT) payable
- > Adjustments arising from alterations to figures previously recorded

**Cash flow monitoring decisions**

When you think about GST cash flow monitoring you look at your arts business from the angle of making sure you will have enough cash available to keep on running as you planned.

How will GST affect the flow of money in and out of your arts organisation? How can you plan to have the money available to pay for the things you need?

Cash flow is affected by GST because:

- > GST influences prices, so the amounts of money you spend and earn in different categories will be change
- > you may have to pay more GST (to the ATO and suppliers) than you can get back (from customers and the ATO)
- > you may pay out and claim back GST in different tax periods - the pressure this puts on your cash flow will vary depending on your accounting method

|   | Cash basis  | Accruals basis  |
|---|---|---|
| You are liable to pay GST for taxable supplies for:             | All payments <b>actually received</b> in that period    | All invoices you issue during the period or where you receive payment or part payment, whichever is the earlier             |
| You can claim input tax credits on creditable acquisitions for: | All payments <b>actually made</b> by you in that period | All invoices issued to your organisation in the period or where you made payment or part payment, whichever is the earlier. |

#### **FOCUS 11: Our cash flow**

Does our cash flow budget show that we can pay our GST liabilities?

How can we time GST payments, and when we buy and pay for supplies, to improve our cash flow?

Are monthly or quarterly tax payments better for our cash flow?

How will price changes to inputs and outputs affect our cash flow?

Which accounting system is best for our cash flow needs?

Do we need to agree a policy for setting aside GST money?

#### **FOCUS 12: Our available cash (working capital)**

Do we have procedures for managing our cash and debtors?

How much cash do we need in our account to service our loans?

CHECKLIST 7: Monitoring our cash flow

| TASKS   | NOTES |
|---|-------|
| <b>1. Cash flow</b>   |       |
| <p>Prepare a cash flow Budget to show whether we have sufficient cash flow to pay our GST liabilities</p> <p>Time GST payments, and when we buy and pay for supplies, to improve our cash flow</p> <p>Decide whether monthly or quarterly tax payments are better for our cash flow</p> <p>Identify how price changes of inputs and outputs will affect our cash flow</p> <p>Decide which accounting system is best for our cash flow needs</p> <p>Agree a policy for setting aside GST money</p> |       |
| <b>2. Available cash (working capital)</b>  |       |
| <p>Check our procedures for managing our cash, debtors and stock - do these give us the best cash flow under GST?</p> <p>Check how much cash we need available in our account to service any loans we have</p>  |       |

### **Legal decisions**

When you think about GST and legal issues, you look across every part of your business from the angle of you as a customer and a supplier.

The law, especially contracts, provide guidelines for what is fair treatment by you of your customers, and how your suppliers should treat you as a customer. Thinking about legal issues will help you take steps to manage any problems that might have a legal solution, and to avoid breaking the law.

To assess and prepare for the impact of GST, review all contracts and think about pricing.

#### **FOCUS 13: Contracts that are legally binding**

What is the GST impact on our existing contracts?

Do any of our contracts cross the GST implementation date? How are these contracts affected?

What is the GST impact on any contracts we plan to sign?

Does the standard wording on the contracts we use with clients etc need to be altered to cover GST impacts?

Does the standard wording on the contracts our suppliers use need to be altered to cover GST impacts?

#### **FOCUS 14: Fair price changes**

Do we know how GST impacts on our fees and charges?

Do we know how GST impacts on pricing used by our suppliers?

Have we kept good records of our decisions about changes to our fees and charges?

Have we described changes in our fees and charges in ways that are clear and fair?

Have we said anything about how GST will affect our fees and charges that is misleading?

## CHECKLIST 8: Legal decisions

| TASKS   | NOTES |
|---|-------|
| <b>1. Contracts that are legally binding</b>  |       |
| <p>Ask our lawyer to review all our existing contracts with our suppliers and our customers to assess the impact of GST, including any transitional impact</p> <p>Seek advice from our lawyer before signing any contracts or entering any transaction that will be legally binding</p>   |       |
| <b>2. Fair price changes</b>  |       |
| <p>Follow ACCC guidelines when making GST changes to our fees and charges</p> <p>Make price reductions at once and pass on the full benefit to the consumer</p> <p>Take account of indirect tax reductions (eg Wholesale Sales Tax)</p> <p>No mark up allowed in the GST component (10% only)</p> <p>Reflect only actual tax increases in the prices</p> <p>Do not use the GST transition to increase profits</p> <p>Keep a record of our decisions about changes to our fees and charges (so that if asked we can explain any price changes to the ACCC)</p> <p>Check that our suppliers are following ACCC guidelines when they adjust their prices for GST</p> <p>Keep documents that explain our suppliers' price changes (so that if asked we can explain any price changes to the ACCC)</p> |       |

# 5.10

## ACTIONS

### Take action

The action plan formats on the following pages list the main focus areas in each of the areas of impact:

#### **Income**

- > FOCUS 1: Our GST liability and setting our fees and charges
- > FOCUS 2: Our systems and processes around income
- > FOCUS 3: Information and communication about fees and charges

#### **Expenditure**

- > FOCUS 4: How GST will affect our costs
- > FOCUS 5: Our systems and processes around expenditure
- > FOCUS 6: Information and communication about costs

#### **Accounting System**

- > FOCUS 7: Our recording routines
- > FOCUS 8: Our source documents
- > FOCUS 9: GST reporting
- > FOCUS 10: Our information systems

#### **Cash Flow Monitoring**

- > FOCUS 11: Our cash flow
- > FOCUS 12: Our available cash (working capital)

#### **Legal Issues**

- > FOCUS 13: Contracts that are legally binding
- > FOCUS 14: Fair price changes

Under these headings you can identify:

- > what needs to happen
- > who will do it
- > how it will get done
- > when it will be done

## Income - our supplies of goods and services

### GST action plan for

#### Actions to make it happen

Who will take responsibility for doing this?

How will we know it has happened?

Date we aim to complete this

FOCUS 1: Our GST liability, and setting our fees and charges

FOCUS 2: Our systems and processes around income

FOCUS 3: Information and communication about setting fees and charges



## Accounting Systems: how we identify, record, store and report GST information

### GST action plan for

| Actions to make it happen         | Who will take responsibility for doing this? | How will we know it has happened? | Date we aim to complete this |
|-----------------------------------|--|-----------------------------------|------------------------------|
| FOCUS 7: Our recording routines   |  |                                   |                              |
| FOCUS 8: Our source documents     |  |                                   |                              |
| FOCUS 9: GST reporting            |  |                                   |                              |
| FOCUS 10: Our information systems |  |                                   |                              |



