

9

GLOSSARY

Final checklist

Think about your arts business and see if you know the answers to these questions:

1. Are you required to register for GST?
2. What records will you need to keep?
3. What paperwork do you need to complete and by when?
4. Have you developed a cash recording system that will allow you to work out your monthly or quarterly GST payments/refunds?
5. Do you know what goods and services you sell that will need to include GST?
6. Do you sell any goods or services that are GST-free?
7. Do you know how to calculate GST on your sales?
8. Do you make business purchases that will include GST in their price?
If so, do you know how to calculate input tax credits on these purchases?
9. Are any of your purchases for business purposes likely to require apportionment (if they are also used for non-business purposes)?
10. Are you aware of when you need to use tax invoices on sales and purchases?
11. Are you required to lodge a GST return monthly? If not, are you better off lodging monthly or quarterly?
12. How will collecting and paying GST affect your cash flow?
13. Are you better off using a cash or accruals accounting method?

If you don't know the answer to any of these questions, get help. The Australia Council Art & Facts workbook is a good start.

Speak to your accountant or tax adviser on these and other more specific issues.

GST-free supplies and input taxed supplies

GST is not charged on the supply of all goods and services by registered businesses. Some supplies are specifically classed as GST-free and some are input taxed. While in both instances this means that no GST is charged on the supply of these goods or services, they have quite different implications for the supplier.

GST-free supplies

Where goods or services are described as being GST-free, no GST is charged by the supplier of such supplies. The supplier of the goods or services is, however, still able to claim input tax credits for any GST payable by them on their purchases. The effect of this is to ensure that the supplier is able to supply the goods or services to the consumer free of the effect of GST.

While there are clearly many requirements that will need to be satisfied, supplies that are GST-free will include:

- > exports and other supplies for consumption outside Australia
- > basic food and beverages for human consumption
- > non-commercial activities for charitable institutions
- > health
- > education
- > child care
- > goods sold at duty free shops
- > international transport
- > grants of freehold and similar interests by governments
- > subdivided farm land
- > cars for use by disabled people
- > the first supply of precious metals
- > supplies of going concerns (or on-going businesses)
- > water and sewerage
- > religious services
- > raffles and bingo conducted by charitable institutions

Again, it is important to emphasise that it is unwise to assume that a particular business (say health) is GST-free. While the provision of hospital services by a hospital may be GST-free, the sale of flowers by a florist at a hospital will not be GST-free. It will be a taxable supply. It is essential to look at the nature of every transaction.

The costs associated with producing GST-free goods or services are not GST-free by virtue of the fact that the good or service supplied is GST-free. The supplier will, however, be entitled to claim an input tax credit.

Input Taxed Supplies

Where the supply of goods and services are described as being input taxed, no GST is paid by the purchaser of those goods or services. In contrast to the treatment of GST-free supplies, however, there is no entitlement for the supplier to obtain any input tax credits for goods or services used to make the input taxed supplies.

There are five main types of supplies that will be input taxed:

- > financial supplies
- > residential rents
- > *residential premises*
- > precious metals after the first supply
- > supplies of food by school tuckshops and canteens under certain conditions

GST words and their meanings

There are a number of words and phrases that have a particular meaning in the context of GST. You will find definitions of many GST words and phrases in alphabetical order in the introduction.

The words listed below are the words you will hear most often in relation to GST.

Understanding the jargon is one of the keys to understanding GST.

Words about GST	Words about GST registered organisations	Words about GST reporting
Goods and Services Tax (GST)	registered for GST	Australian Business Number (ABN)
Australian Taxation Office (ATO)	enterprise	Business Activity Statement (BAS)
transactions/ supplies	entity	tax invoice
outputs	non-profit organisation	apportionment rules
inputs	charity	creditable acquisitions
taxable supplies	charitable organisation	tax period
GST-free supplies	Income Tax Exempt Charity (ITEC)	attribution rules
input taxed supplies	Deductible Gift Recipient (DGR)	
input tax credits		
consideration/payment		

About this glossary

- > When a word within a definition is written *like this* you can refer to the definition of that word alphabetically on this list.
- > When a definition is written 'like this' it is using the exact Australian Taxation Office wording.
- > (GST) after the word means that this term has a special meaning under GST

acquisitions

These are purchases. For GST purposes there is no difference between a cost of running the business or a capital expense. All of these are treated as acquisitions.

adjustments

These are required to be done to adjust the amount of GST liability or GST credit that you have accounted for. Adjustments will be notified on the *Business Activity Statement*.

accruals-based accounting

This basis of GST accounting covers all *transactions* entered into, whether or not payment has been received (it considers cash in and out and money owed and owing)

annual turnover (GST)

Current annual turnover is the value of all *supplies* that you made, or are likely to make, during the 12 months ending at the end of that month, other than:

- > supplies that are *input taxed*
- > supplies that are not for *consideration*
- > supplies that are not made in connection with an *enterprise* that you carry on

An entity that carries out a non-profit enterprise must register for GST if their annual turnover is over \$100,000.

apportionment (GST)

You can only claim *input tax credits* for those purchases that you can clearly attribute to taxable and *GST-free* supplies. Where something you buy may be used for both taxable and *input-taxed supplies*, you must allocate the GST credits to each supply on an appropriate basis. The reasonable allocation of purchases is defined as:

you might buy a computer for your service that you also use for your household accounts. After keeping a log book, you find that 10% of your use of the computer is personal. In this case, you can reclaim only 90% of the GST you have paid on the computer.

assets

Items that your business controls or owns.

attribution (GST)

Attribution rules are how you decide which *tax period* your GST payments and *input tax credits* belong to. The rules are different, depending whether your GST accounting systems are *cash-based* or *accruals-based*.

Australian Business Number (ABN)

The number that identifies you in all your dealings with the ATO (and, in the future, with all government departments). A valid *tax invoice* must show the supplier's ABN. You need to apply for an ABN before you can apply for *registration for GST*, and for endorsement as a *charity*.

bad debts

Debts that are unlikely ever to be paid in cash. For example, rent owed by a studio tenant who has vacated and cannot be contacted would be recorded as a bad debt. An *adjustment* can be made where a debt has not been paid for 12 months.

Business Activity Statement (GST)

The BAS is a form used to calculate and report your GST and other tax obligations (what you owe) - see *PAYG* and claims (*tax credits*) - to the Australian Tax Office. If you are *registered for GST*, you must send the BAS to the ATO at the end of each *tax period*.

cash

In the context of tax, cash refers to *payment* by money or cheques. It does not include credit payments or payments '*in kind*'.

cash balance

It is important to check the amount of money in your bank account, your cash balance, before you pay *invoices*.

cash-based accounting

Cash transactions are used to establish when particular GST payments and claims must be made to the ATO - when cash comes in to pay for *taxable supplies* GST is payable, and when cash goes out to pay for *creditable acquisitions* GST *input tax credits* can be claimed.

cash flow

Your cash flow is the availability of *cash* to meet your spending needs at any point in time. A positive cash flow is when you have more cash available than you need to spend and a negative cash flow is when you have less cash available than you need to spend. Under GST, your cash flow may be affected by both the *GST accounting method* and the *tax period* you choose

charity/ charitable organisation (GST)

The legal meaning of 'charity' is wider than the commonly understood meaning.

Organisations will be charitable if they are conducted on a not-for-profit basis and are established to benefit the community, or some section of it, through:

- > the relief of poverty or sickness or the needs of the young or the aged
- > the advancement of education
- > the advancement of religion, or
- > other purposes beneficial to the community.

If you have any concerns about whether your organisation is a charity, contact the Tax Office Business Tax Reform Infoline on 13 24 78.

The term 'charitable' has the same meaning for GST as it has for income tax purposes.

chart of Accounts

Your Chart of Accounts is your list of all the different types of *transactions* you make (eg salary and wages, box office sales, stationery, equipment) under each of the 5 key accounts of *assets*, *liabilities*, *equity*, *income* and *expenditure*. The level of detail you include on your Chart of Accounts will depend on what information you want to be able to extract from your financial reports.

consideration (GST)

Your entitlement (either in *cash* or *in kind*) for the *supply* of anything. It includes doing something, or not doing something, in response to a supply or to get someone to make a supply.

creditable acquisition (GST)

Acquisitions are things you buy to run your business and provide your services - for example, goods, services, advice, information, leases, hire agreements. These are creditable (that is you can claim *input tax credits*) if:

- > they are acquired for a creditable purpose (not acquired for making *input taxed supplies* or for private use)
- > the supply to you is a *taxable supply*
- > you provide, or are liable to provide, *consideration* for the supply
- > you are registered or required to be *registered for GST*

enterprise (GST)

The business activity that you carry on.

Some other things can also be an enterprise even if not of your business, such as leasing on a regular or continuous basis.

entity (GST)

An entity is the individual or group that carries out an *enterprise*. Community-based organisations are entities.

Goods and Services Tax (GST)

GST is the name used in Australia for the new tax on consumption. This is a tax payable on the supply of goods and services by suppliers who are registered for GST.

There is a chain effect as things are bought and sold: a supplier can charge GST to their customer; they can also claim back GST they pay in prices to suppliers further up the chain. A business that is *registered for GST* can offset what they paid as a customer against what they must pay to the government.

The GST cost lies with the consumer at the end of the chain, if businesses are registered. In the case of an *input-taxed supply* the supplier bears the cost even if they are registered - see below.

The GST tax rate is 10% on top of the value of the goods or services. The price of taxed goods and supplies include GST. Sometimes price tags and invoices will show only the price 'inclusive' of GST; and sometimes both the GST inclusive price and the amount of GST included will be shown.

GST branches (GST)

Branches of a registered *entity* can separately register for GST. The branches are then treated as separate entities for GST.

GST group (GST)

Entities can operate as a group for GST purposes. This means that *transactions* between the entities are not *taxable supplies* (no GST is charged or paid).

GST units or sub-entities (GST)

A *charity* and certain non-profit bodies can choose to have units of its operation treated as separate *entities* for GST. Each unit or sub-entity must have its own accounts records and distinct activities or location. The organisation can choose whether or not to register units or sub-entities with a turnover less than \$100,000. Registered units operate just like any other GST registered entity.

GST-free supplies (GST)

A supply that doesn't include GST because it has been declared GST free. Suppliers of GST-free supplies cannot charge GST in prices and do not have to pay GST to the ATO for that supply. In other words, the tax rate is 0%. The supplier of a GST-free supply can claim *input tax credits* for the GST paid in the prices of *inputs* if they are *creditable acquisitions*.

GST return

See Business Activity Statement (BAS)

indirect Tax

An indirect tax is a tax that is levied on goods, services or activities rather than on individuals or entities. For example stamp duty, wholesale sales tax and the GST are all indirect taxes.

inflows

'Inflows' is a name used to refer to products and services you are purchasing.

input tax (GST)

Input tax is the GST paid or payable in the price of *inputs* to your business - it is the GST included in the prices you pay to your suppliers. Sometimes you can claim this back as *input tax credits*.

input tax credit (GST)

The name given to the GST included in the price of acquisitions for your business. It is called an input tax credit because it is an amount you claim in your *BAS* for (GST) that you pay on your business inputs (as opposed to your sales which are your outputs).

It is called a credit because, when determining if overall you have to make a payment to, or can get a refund from, the ATO, you offset it against the GST that you charged on your sales and owed to the ATO.

inputs (GST)

Under GST, inputs refers to the things and services you acquire to run your business and provide your services. The cost of acquiring inputs is your *expenditure*.

input-taxed supplies (GST)

You do not charge GST if you make input-taxed supplies. There are five main types of supplies that will be input taxed:

- > financial supplies
- > residential rents
- > residential premises
- > precious metals after the first supply
- > supplies of food by school tuckshops and canteens under certain conditions

invoices

Invoices (or bills) are provided to customers at the time of delivering a good or service. An invoice states what was provided, the amount owed, the time the customer has to pay the bill and any penalties for late payment. See *tax invoice*.

market value

Market value is the amount that something can be sold for in a commercial environment. The market value of a particular type of good or service is very important for charitable organisations. This is so that you can show the ATO you are carrying out '*non commercial activities of charities*'.

The market value of goods and services is open to interpretation, and the ATO will allow you to make an argument to support your figure for the market value you want to use in individual cases.

The ATO have published benchmarks for the market value of residential rents (accommodation and housing rented for more than 28 days), short term accommodation charges (accommodation rented for 28 days or less) and meals.

outflows

Under the GST, outflows refers to the products and services you are selling or providing.

PAYG

Pay-As-You-Go. The new system for paying all your taxes and amounts you owe the ATO, at the one time. Includes your own income tax instalments, remittances of tax deducted from your employee's wages and other amounts payable to the ATO.

price

What is actually paid for a good or service including any GST. If what is paid is not in money, the price is the GST-inclusive market value of what is given or done.

non-commercial activities of charities

A *charity* will make *GST-free supplies* if their activities are '*non-commercial*'. This means that they can show to the ATO that the price they are charging their clients and customers is:

- > less than 75% of the *market value*, in the case of accommodation charges and residential rent
- > less than 50% of the *market value*, in the case of all other goods and services
- > less than 75% of the cost of making the supply in either case

non-profit organisation

An organisation whose articles of association or rules:

- > do not allow the distribution of profits to members
- > require the assets to be distributed to another non-profit organisation if the organisation stops running a service.

output tax (GST)

The GST you charge in the price of the goods and services you provide.

outputs (GST)

Under GST, outputs refers to goods and services you provide or sell to others, your *supplies*.

registered for GST

Registered means registered with the ATO for GST purposes. A person or entity that is registered or required to be registered has to charge GST on their sales that are subject to GST and remit it to the ATO and can get back GST they have paid on purchases or expenses used in their business. A person or *entity* that is not registered does not charge GST on their sales. They still have to pay GST on any purchases or expenses subject to GST but can't get it back.

Conditions apply to whether an *entity* must register for GST - the main one relates to *annual turnover*.

A registered entity must pay GST on *taxable supplies* and can claim *input tax credits*.

A variety of registration arrangements are available to charities: as an *entity*; as a member of a *GST group*; as a parent body with separate *GST branches*; and as individual *GST units* or *sub-entities*.

If an *entity* is not registered or not required to register for GST, no GST is payable or refundable.

registration turnover threshold

The registration turnover threshold is the amount at which you are required to register for GST purposes.

For most businesses, it is \$50,000.

For non-profit organisations the threshold is \$100,000.

If your turnover is more than this, you must register for the GST.

supplier

Your suppliers are people and organisations who provide you with goods or services. For example, your suppliers are maintenance contractors, food suppliers, people and organisation who lease you property, your electricity corporation, etc.

You are the supplier of services to your clients and members.

supply (GST)

GST doesn't use the words sales or income. It looks at what you supply, no matter how you sell it. However, you don't have to pay GST unless you or someone else gets something in return for your supplies.

There are four kinds of supply under GST: *taxable*, *input-taxed* and *GST-free supplies*; and supplies made by or to a business not *registered for GST*.

tax invoice (GST)

This is an *invoice* in the format required by the Australian Taxation Office for businesses who are registered for GST. It states the amount payable, including GST, and must include other information, including the *ABN* of the *supplier*. You need a tax invoice from your supplier before you claim back *input tax credits*. A tax invoice is required if the GST-inclusive price of the supply is \$55 or more.

tax period (GST)

This is the length of time you account for on your *BAS*, and how often you must report to the ATO. Businesses with a turnover of less than \$20m can choose whether to report monthly or quarterly (every three months). The tax period you choose may affect your *cash flow*. Once you make a choice you must lodge on that basis for 12 months.

taxable supply (GST)

A supply that is subject to GST. Taxable supplies are taxed at the rate of 10% on the value of the goods or service. For a *supply* to be taxable it must meet four conditions:

- > you make the supply for consideration (you get something for it)
- > the supply is made in the course of your business
- > it is connected with Australia
- > you are registered or required to be registered for GST

transaction

An exchange of resources - goods, services, resources or work effort (including advice, information, leases). See *supplies*

turnover

See *annual turnover*

value

The price that the product is sold for before adding on GST. Where GST is included in the price of the supply, value is 10/11th of the price.

Contacts

Organisations	Resources Available
GST Assist Helpline Infoline 13 30 88	<p>An initiative of the GST Start-Up Assistance Office. The Helpline will be open every day from 9am to 9pm Australia-wide.</p>
GST Start-Up Assistance Office Phone 02 6263 4490 www.gstartup.gov.au	<p>The GST Start-Up Assistance Office is responsible for organisational assistance and educational initiatives that support small and medium enterprises, charities and educational bodies. Their website offers:</p> <ul style="list-style-type: none"> • List of representative organisations • Programs • Frequently asked questions • Other GST information • GST Assist Helpline • On-line version of <i>The GST Business Skills - an Action Guide</i>
Australian Taxation Office (ATO) Tax Reform Office Infoline 13 24 78 Fax from Tax 13 28 60 www.taxreform.ato.gov.au	<ul style="list-style-type: none"> • Industry information • Fact Sheets • ATO publications • ABN registration • Business search • Legislation • Planner • Programs • Questions and answers
Institute of Chartered Accountants in Australia (ICAA) www.icaa.org.au	<p>This is a professional organisation for Chartered Accountants. Their website is informative and user friendly. It also contains information on all aspects of Tax Reform and legislation.</p> <p>You can use the ICAA to identify a practising accountant in your area who can assist you with GST. Their website offers:</p> <ul style="list-style-type: none"> • News • Educational material • GST Questions and answers
Australian Society of Certified Practising Accountants (ASCPA) www.cpaonline.com.au	<p>This is a professional organisation for Certified Practising Accountants. The CPAs are working with the GST Start-Up Assistance Office to support the GST Assist Helpline.</p> <p>You can find other information about their services and assistance at their website.</p>
Taxation Institute of Australia (TIA) www.taxia.com.au	<p>This is a professional organisation for tax practitioners and members. The site contains some useful information on aspects of The New Tax System.</p>
Australian Consumer and Competition Commission (ACCC) www.accc.gov.au	<p>The ACCC has a key role with GST in guarding against price exploitation. At their website you can find guidelines on price exploitation and other related GST initiatives. The ACCC has a network of offices in all capital cities as well as Townsville and Tamworth.</p>

ATO industry booklets

The following industry specific booklets are also available or will be available on the ATO website: www.taxreform.ato.gov.au

- > Accommodation & The New Tax System
- > Arts and Culture & The New Tax System
- > The Building and Construction Industry & The New Tax System
- > Business and Professional Services & The New Tax System
- > Charitable, Religious and Non-profit Organisations & The New Tax System
- > Child and Aged Care & The New Tax System
- > Commercial Fishing & The New Tax System
- > The Communications Industry & The New Tax System
- > Cropping & The New Tax System
- > Dairy Farming & The New Tax System
- > Federal and State Public Sector & The New Tax System
- > The Health Industry & The New Tax System
- > Higher Education and Training & The New Tax System
- > Horticulture & The New Tax System
- > Insurance & The New Tax System
- > The Livestock Industry & The New Tax System
- > Local Government & The New Tax System
- > Manufacturing & The New Tax System
- > Mining and Energy & The New Tax System
- > Property & The New Tax System
- > Registered Clubs, Pubs and Hotels & The New Tax System
- > Restaurants, Cafés and Caterers & The New Tax System
- > Retailing and Wholesaling & The New Tax System
- > Road Transport & The New Tax System
- > Schools & The New Tax System
- > Sport, Recreation and Gaming & The New Tax System
- > Storage, Hire and Rental & The New Tax System
- > The Taxi Industry & The New Tax System
- > The Timber Industry & The New Tax System
- > Travel and Tourism & The New Tax System

ATO rulings program

Topic	Date draft/final expected to be issued
Adjustment notes	27 October 1999
Creditable acquisitions - circumstances where tax invoice is not required	November 1999
Input tax credit entitlement without tax invoice	November 1999
Special credit for sales tax paid for stock on hand 25	24 November 1999
Special credit for WST in stock on hand	25 November 1999
Adjustments for bad debts	15 December 1999
GST - the Rulings System	15 December 1999
Approved forms for tax invoices and adjustment notes	22 December 1999
Attribution rules for particular types of taxable supplies	22 December 1999
Meaning and extent of the term "creditable purpose"	22 December 1999
Determination of education course for GST-free status	22 December 1999
Recipient created tax invoices	22 December 1999
Information requirements for adjustment notes	22 December 1999
Margin scheme for supplies of real property	22 December 1999
Payment of fees and commissions for insurance brokers and agents	22 December 1999
Correct treatment of appropriations and grants by Governments	24 December 1999
Apportionment of input tax credits relating to financial supplies	24 December 1999
Supplies connected with Australia	January 2000
Adjustments for changes in the extent of creditable purpose	January 2000
Adjustment events	January 2000
Attribution of GST payable or input tax credit arising from sale under a standard land contract	March 2000
GST commercial residential premises	March 2000
Permission to account on a cash basis of accounting	March 2000
GST impact on out of court settlements	April 2000
Interaction between FBT and GST	TBA
Transitional provisions that apply to warranties	TBA

GLOSSARY

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Sources & Acknowledgements

Sources

ATO, *Arts & Culture, Imports, Charities and Non-Profit Organisations, Am I in Business?*

Paul Stacey, 'The Art of GST', *GST Today*, Issue 13, November 1999

Brian Tucker, *News & Information*

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