1

GST BASICS

1.1 GST jargon - a start

GST, like most taxes, has its own particular jargon. You'll have to get to know the main terms that are used. The ATO will use those terms in the documents that they send you and on the forms that you will have to fill out. A more comprehensive alphabetical glossary, which provides definitions, is included at the back of this workbook.

This section provides a quick introduction to the new terms you will encounter when dealing with GST. It divides these terms into two categories:

> **KEY TERMS**

> **COMMON ABBREVIATIONS**

Within each category the terms are grouped alphabetically. Many of these terms are used in the GST Story to give you an idea of what they mean. The story does not explain everything about GST, but rather it introduces key issues in a lighthearted way.

The main terms used and what they mean is explained below. These are not definitions. They are explanations which will help you understand what the terms are all about. Read the terms and their meanings just to get a general idea. The meanings will become clearer and you will see how they fit in as you read other parts of this book that explain The New Tax System in more detail.

You can come back to this list whenever you encounter them in the book and want to remind yourself what they mean.

Key Terms

Australian Business Number (ABN)
A unique number that identifies you. It must be used in all your dealings with the ATO (other than for Income Tax) and on certain documents you are required to create.

Adjustment
An extra amount you may have to pay, or can get back, if the amount you get for a sale, or pay for an expense, changes after the original transaction. An adjustment can also be required where you buy or pay for things and you change their use, such as by using them less in your business and more for private purposes.

Adjustment note
A document you have to give or must get when the GST amount included in the price of something sold or purchased, changes. It must contain certain specified details.

Business Activity Statement (BAS)
The form that you have to fill in and send to the ATO, other than Income Tax. Your GST return is included in this form but it also covers all other taxes you have to pay or remit to the ATO, other than Income Tax.

Consideration
Consideration is what is given or done in return for a supply. Where goods or services are given instead of money, consideration is the GST-inclusive market value of the thing given.

Enterprise
The activity that you carry on in your business.

GST-free
A supply that doesn't include GST in the price. If you make GST-free supplies, ie you don't charge GST in the price of the supply you make, you are still entitled to claim input tax credits for the GST included in the cost of your business expenses.

GST return see BAS.

Input taxed
A supply for which GST is not charged.

Input tax credit
The amount of credit you claim for the 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 GST that you charge on your sales and owe to the ATO.

Pay-As-You-Go (PAYG)
The new system for paying all your taxes and amounts you owe the ATO, at the one time. It includes your own income tax instalments, remittances of tax deducted from your employee's wages and other amounts payable to the ATO. It replaces provisional tax and the company and superannuation fund instalment system.

Price
The amount paid for a good or service including GST. If the price is not paid in money, the amount received by the supplier will be the GST-inclusive market value of the thing provided.

Supply
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.

Tax invoice
A document that you have to get when you make a purchase or have an expense in respect of which you can claim a GST credit from the ATO. You will have to issue a tax invoice in relation to supplies you have made, which include GST in the price. Generally, only your customers that are registered for GST will require a tax invoice.

Tax period
The monthly or quarterly period in respect of which you have to lodge a GST return. It is also the period into which you will determine a supply will be accounted for.

Taxable supply
A supply that is subject to GST. Not all supplies are subject to GST, so this term distinguishes those supplies that are. Supplies that are not taxable are GST-free supplies, input taxed supplies and supplies made by a business that is not registered for GST.

Registered
Registered means registered with the ATO for GST purposes. A person or entity that is registered or required to be registered must charge GST on their supplies that are subject to GST. Only a registered business can claim a credit for GST 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.

Value
The amount that you would otherwise sell the supply for before adding GST. When the supply is made by a registered supplier, "value" will be 10/11ths of the price.

Common abbreviations

Common abbreviations used in this publication, by the ATO or in the media that are part of the general tax reforms related to GST are:

Abbreviation	Explanation
ABN	Australian Business Number
ATO	Australian Taxation Office
BAS	Business Activity Statement
GST	Goods and Services Tax
PAYG	Pay-As-You-Go
TFN	Tax File Number

The GST Story

Arts & Minds is an arts organisation, providing a variety of support, training and arts project management services. Arts & Minds currently has Wholesale Sales Tax exemption.

Veronica, Arts & Minds' Chairperson, is talking to Xavier, Arts & Minds' Treasurer about GST.

VERONICA: What's this **GST** all about then, Xavier? Have you sorted out Arts & Minds' exemption yet?

XAVIER: Nobody is exempt, Veronica. GST stands for **Goods and Services Tax** - it's a tax on **transactions,** that is, the exchange of goods and services and work effort. The way it works is this: an **entity** (an individual or group) carrying out an **enterprise** (business-type activities is the simplest explanation, but that's simplifying it) registers for GST with the **Australian Taxation Office,** the ATO. When the entity sells goods or services they have to give part of the money to the ATO. That payment to the ATO is GST. And the **GST registered** entity can add GST on to the price they charge, so the customer ends up paying for it.

VERONICA: Does that mean that Arts & Minds is an entity, and everyone who supplies us with goods and services is an entity, so we could all register and charge GST?

XAVIER: That's right, but businesses who are registered for GST can usually claim back the GST they paid to their suppliers. When GST is included in the price of something they use in their business, like a computer or their accountant's fees, they can ask the ATO for a refund. The refund is called an **input tax credit** - they're getting back the tax on their business inputs. A GST registered organisation pays GST to the ATO on their **outputs** (the things they supply to others) and gets back from the ATO the GST they have paid on their **inputs** (the things other people and organisations have supplied to them). Does that make sense?

VERONICA: Let me see if I've got it. If we register Arts & Minds for GST we'll pay tax on our outputs, that's our services, and we'll claim back tax on our inputs, that's what we spend money on. OK so far? I don't understand how we know how much GST we have to charge our clients - they're our customers, right?

XAVIER: Our clients are our customers, and so is anyone else who gives us consideration [that's ATO jargon for: makes a *payment* to us in exchange for something we supply them]. So we've got to start thinking about our funding bodies and people we raise funds from as our customers too! In fact we have to look at all the supplies we make, and work out: do we have to pay GST?

Now Veronica, there are different answers, depending on the type of transaction:

1. **Taxable supplies** are taxed at **10%** of their value, if the supplier is registered for GST. So the customer will pay an extra 10%, which the supplier passes on to the ATO. Our grant fits in this category, and there's talk of the government topping up the grant by 10%.

2. **GST-free supplies,** which have no tax added. We can't charge anything extra to our clients and tenants for GST-free supplies. The ATO have listed what these are. They include certain **non-commercial activities of charities**, basic foods, healthcare and so on. In fact, most goods and services provided by charities (that is **charitable organisations** that are **non-profit** and exist to benefit the community) will be GST-free. We have to have our charitable status 'endorsed' by the ATO before 1 July, to make sure we're on the new list of charitable organisations as a **Deductible Gift Recipient (DGR).** The other sort of charity we could be registered as is an **Income Tax Exempt Charity (ITEC),** so we should check we fit that definition too.

3. **Input taxed supplies** have no tax added either. The tax here is on the inputs, which means you can't get **input tax credits.**

VERONICA: OK! You're going too fast for me now! I've got the types of supplies: taxable, we add 10%; GST-free, we add nothing; and input taxed, we add nothing and can't claim anything either. I'm not clear about this claiming part of it though. What do we have to do to get these input tax credits?

XAVIER: First, we have to make sure we have a special **tax invoice** from our supplier for any GST claim we make. Basically, we'll get back our input tax credits when we send our properly filled in **Business Activity Statement (BAS)** to the ATO.

We need to make sure our accounts can give us accurate information at the right time about our **creditable acquisitions.** These are anything we paid GST in the price and have *not* used for making an input taxed supply.

VERONICA: But our accounts don't give us this sort of information, do they?

XAVIER: No they don't, and this is where things get a bit more complicated. There are lots of decisions to make and things to do, depending on what will work out best for Arts & Minds. We have to decide about our **GST accounting method** (should we use **cash based** or **accruals based** accounting?) We also have to choose which **tax period** is best for us to report to the ATO - we can report GST on our BAS every month or every three months. We need to understand about the **apportionment** rules, which is how we divide up our expenditure between creditable and non-creditable supplies, so we can work out our income tax credits. We need to understand about the **attribution** rules, which is how we decide which tax period our GST payments and input tax credits fit into. And we have to check how GST will affect all our transactions, and make sure we and our systems will cope!

VERONICA: Sounds like we better get on to this right away!

XAVIER: Yes. And first, we need to apply for an **Australian Business Number (ABN)**, the number that identifies us when we deal with the ATO. We can't sort out our charity status or register for GST without it. An issue even before that is order PAYG, unless we have an ABN, we could be subject to a 48.5% withholding tax in relation to sales or services to other businesses.

VERONICA: And once we've got our ABN?

XAVIER: We need to make sure the ATO has us on the charity register, and think seriously about GST registration. Some organisations have to register, and we need to know if we are one of those, or whether we have a choice. Then if we do register, we have to get ready for GST by 1 July.

VERONICA: How are we going to do all of this? You seem to know quite a lot already, but everyone in the organisation is going to need to know about GST.

XAVIER: Well Veronica, I think this workbook is a good place for us to start...

1.3 The New Tax System is more than just GST

The Commonwealth Government has introduced a comprehensive tax reform package to implement *A New Tax System (Goods & Services Tax) Act 1999 (ANTS).*

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

The ANTS package agreed between the Commonwealth and the States includes the removal of wholesale sales tax and changes to stamp duty, financial institutions duty, bed tax, debits tax, excise duty and a range of other State and Commonwealth taxes. The Government is also amending the Fringe Benefits Tax (FBT) law and introducing a totally new Pay As You Go (PAYG) system of tax remittances.

In addition, the existing diesel rebate structure will be expanded and a new diesel grant scheme will be introduced, which is intended to have a positive impact on transport costs.

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

Wholesale sales tax

From 1 July 2000, Wholesale Sales Tax (WST) will no longer be charged on assessable dealings (activities which give rise to an obligation to charge sales tax other than where an exemption applies).

WST will be replaced by the much broader based goods and services tax (GST), applying to supplies of goods and services. WST is a once only tax, which is generally imposed on the last wholesale sale. GST by comparison passes through the entire supply chain but the tax is ultimately borne by private consumers, or unregistered business.

It is important to note that **there is no concept of GST exemption** as currently exists with WST. Where you currently have an exemption for WST purposes, this will not equate to any exemptions for GST purposes, therefore your purchases will not be GST exempt because of an existing WST exemption.

To prevent double taxation (that is, goods having both GST and WST paid on them), there is a special credit available for any WST paid on goods held for sale or exchange (ie trading stock) at 1 July 2000. This special credit does *not* apply in the following situations:

> goods held for manufacture (ie raw materials)

> second-hand goods

> certain alcoholic beverages

> certain consumables

The amount of the special credit is equal to the amount of the WST that you have borne in respect of the goods. Therefore, it is important to keep sufficient records to identify the amount of WST paid. If you do not have documentary proof of the WST paid on your trading stock, you will have to ask your supplier for details or use some other method acceptable to the ATO.

The special credit can be attributed to any one tax period before January 2001 and is treated as though it were an input tax credit. You must lodge your Business Activity Statement (BAS) before **22 January 2001** in order to claim this special credit. Tax periods are explained later. You must be registered as at 1 July, 2000 to be eligible for this special credit. If you are under the turnover level for registration, you may consider registering for GST in order to be eligible for this credit.

Other indirect taxes

It is important to note that although GST will operate from 1 July 2000, the replacement of a number of indirect taxes will be staggered over a number of years. The ANTS package impacts upon a wide range of other indirect taxes, which are briefly highlighted below:

> State stamp duties on the transfer of marketable securities (such as shares) will be abolished on 1 July 2001

> bed taxes (where they apply) will be abolished from 1 July 2000

> State financial institutions duty (FID) will be abolished from 1 July 2001 State gaming taxes will be reduced from 1 July 2000

> the States will now be permitted to defer the abolition of remaining business stamp duties (the allowable period of deferral has not been announced)

> bank accounts debits tax (BAD) is earmarked to be abolished by 1 July 2005 (compared to the original date of 1 January 2001)

A Ministerial Council will be conducted in 2005 to review the need for the retention of stamp duty on a variety of other transactions such as non-residential conveyances, leases, mortgages, and loan securities.

Personal income tax

From 1 July 2000, personal income tax rates will change. The tax free threshold will be lifted from $5,400 to $6,000. The new rates are shown in the following table.

Current Scale	Current Rates	New Scale	New Rates
Taxable Income ($)	Tax Rate (%)	Taxable Income ($)	Tax Rate (%)
0 - 5,400	0	0 - 6,000	0
5,401 - 20,700	20	6,001 - 20,000	17
20,701 - 38,000	34	20,001 - 50,000	30
38,001 - 50,000	43	50,001 - 60,000	42
50,001 plus	47	60,001 plus	47

The impact of the new rates of tax will mean that a person earning $50,000 in taxable income will save $2,722 (ignoring Medicare levy and any rebates that may apply specifically to them).

This is calculated as:

> Tax on $50,000 using the old rates for resident taxpayers is: $14,102

> Tax on $50,000 using the new rates for residents is: $11,380

This gives a difference of: $2,722

Pay As You Go

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

> aligning payment dates for the various taxes that business pay

> allowing business taxpayers to make just one tax payment per quarter

> combining the existing tax withholding systems into a single system

The new PAYG system comprises:

> a PAYG withholding system, which will replace the existing Prescribed Payments System (PPS) and Reportable Payments System (RPS) as well as other withholding arrangements, (for example, non-resident withholding, Tax File Number (TFN) withholding)

> a PAYG instalments system, which will replace the current provisional tax and company instalments systems

> running balance accounts as a method of determining taxes owing so that taxpayers can provide a single statement which tallies their net tax paying or tax refund position in respect of their entire taxation liabilities

Australian Business Number (ABN)

A key element of the new PAYG scheme is the identification of businesses through issue of an Australian Business Number (ABN). Applying for an ABN is necessary for all businesses.

This is because if you do not have or provide an ABN for goods and services you supply after 1 July 2000, all payments made to you by a business may be subject to a new withholding tax of 48.5%.

An ABN is a new 11 digit identifier which will not replace your TFN but will eventually be used for all your dealings with the ATO and for future dealings with government departments and agencies at all levels.

To apply for an ABN, you must be either a company or an entity carrying on an enterprise. Employees, hobbyists and individuals who are conducting activities without a reasonable expectation of profit are not eligible for an ABN. The ATO has a self assessment questionnaire to help you decide if you're carrying on an enterprise at http://www.ato.gov.au/content/businesses/applying_for_an_abn

The Australia Council has worked for many years to ensure that the community and institutions such as the taxation system recognise that professional artists are also "in business". The Council continues to advise the Government that professional artists are in business and can reasonably look toward making money and profit from their work. Council would appreciate your advice if an ABN is not available to you.

It is possible to apply for an ABN without registering for GST.

Fringe Benefits Tax

From 1 April 1999 changes to Fringe Benefits Tax (FBT) require employers to record the taxable value of fringe benefits provided to employees. Where the total taxable value of the fringe benefits exceeds $1,000 in a FBT year, the employer is required to report an amount on the employee's group certificate.

There are also implications for FBT with the introduction of GST. These are unclear, but there is an ATO ruling to be released on this subject. The interaction of GST and FBT may have further significant implications for salary packaging, for example, it is still to be settled whether non-monetary remuneration as part of a salary package to an employee by an employer is a taxable supply.

Other Tax Changes

Excise on diesel fuel

The cost of diesel and like fuels is expected to fall significantly from 1 July 2000 because of the extension of the existing Diesel Fuel Rebate Scheme and the introduction of the Diesel and Alternative Fuels Grants Scheme. From 1 July 2002, these two schemes will be replaced by the Energy Grants (Credits) Scheme. This new Scheme will retain all the benefits of the previous two, but with changes to encourage a move to cleaner fuels.

Excise on petrol

The Government has indicated that it will reduce the rate of excise from 1 July 2000 to offset potential price rises due to the introduction of GST. As businesses will be eligible for an input tax credit for the GST component in the price of petrol used for business, the price of petrol for registered businesses should fall, resulting in lower fuel cost. It has been estimated that this reduction should be in the order of 7 cents a litre.

Excise on tobacco and alcohol

Changes in excise duty will occur for alcohol (from 1 July 2000) and tobacco (from 1 November 1999).

Luxury Car Tax

As of 1 July 2000, the Luxury Car Tax (LCT) will apply to luxury cars with a retail price (inclusive of GST) above the luxury car tax threshold ($55,134 for 1998/1999, which is the car depreciation limit for income tax purposes). The LCT is to be introduced at the rate of 25% so as to equate the reduction in price with the abolition of the WST for cars below the luxury car threshold. The 25% rate will be applied to the GST exclusive value of the vehicle above the luxury car threshold. Businesses will not be able to obtain an input tax credit for the LCT.

Wine Equalisation Tax

The Wine Equalisation Tax (WET) will also be introduced with GST as a means of replacing the current WST. This tax will be levied at the wholesale level at the rate of 29% and it will largely facilitate the maintenance of existing taxation levels on these products. There will be some small increase in the retail price in both bottled and cask wine. The WET will apply to grape wine, fruit and vegetable wine, grape wine products such as Marsala, Vermouth, wine creams and cocktails, cider, perry, mead and sake. Entities holding WST paid stock will be able to claim a credit for the difference between the WET and WST (ie 12/41 st of the WST).

There are a number of initiatives, other than GST, which may impact on what you do. It will be necessary for you to understand that impact and any entitlements, and how the PAYG provisions will operate. Your advisers should be able to assist you further in this regard.

How GST works

The GST affects both what you sell (income) and buy (expenditure).

Charging GST on sales

The rate of GST is 10%.

When selling a product:

> work out the value of the product that you want to keep for yourself from the sale (there are some special things you need to remember when doing this)

> work out the extra amount you need to get to cover GST (by dividing the value you want to keep for yourself by 10)

> make sure the price you charge (or receive, if someone else is setting the price) includes both the value for you to keep plus the extra amount for GST

Your purchases and other expenses

People who sell to you will be doing the same thing. So you will be paying GST as part of the cost of most of your arts expenses.

You can, however, get the GST you pay as part of your expenses back, provided the expenses are for things you use in your arts business. You have to get it back from the ATO, not the person you paid.

How and when do you pay GST on sales and get it back on expenses?

You don't pay GST to the ATO on your sales one at a time. However, you do calculate it separately on each sale that is subject to GST, and you should remember to charge it as part of the price for each of those sales.

You don't get back GST on your purchases one at a time. However, again you calculate it on each purchase or expense that includes GST.

You must regularly lodge GST returns with the ATO, either quarterly or monthly (you make this decision when you register for GST with the ATO). In those returns, you add up all GST you have to pay on your sales and subtract all GST you can get back on your expenses.

If what you have to pay is greater than what you can get back, then you pay the difference to the ATO.

If what you can get back is greater than what you have to pay, then the ATO owes you a refund for the difference. They will either send it to you or, if you owe other tax to the ATO, use it as an offset to pay that other tax. If the other tax owing is not as great as the refund, then the ATO will send you the difference.

Remember, GST passes through the entire supply chain but the tax is ultimately borne by private consumers, or unregistered businesses or organisations, as these are not entitled to claim input tax credits for GST paid.

1.5 Terms and Concepts

Who pays GST?

The end consumer pays GST.

Some people have expressed concern that arts consumers may limit their spending on the arts when GST is introduced. The Commonwealth Government has set up a monitoring process to gauge the effect of GST on the arts.

The Government will review the need for additional assistance to the arts with a view to ensuring that the arts are not adversely affected by the impact of GST. The Government will fund a study to develop an appropriate methodology to measure the likely impact of GST on the arts. Staff at the Australia Council and the Department of Communications, Information Technology and the Arts are contributing to the development of this methodology. The methodology and a preliminary assessment of impacts will be completed in 2000 and the review will be completed by September 2001.

Businesses in the chain of supply are responsible for collecting GST on goods and services and remit this GST to the Australian Taxation Office.

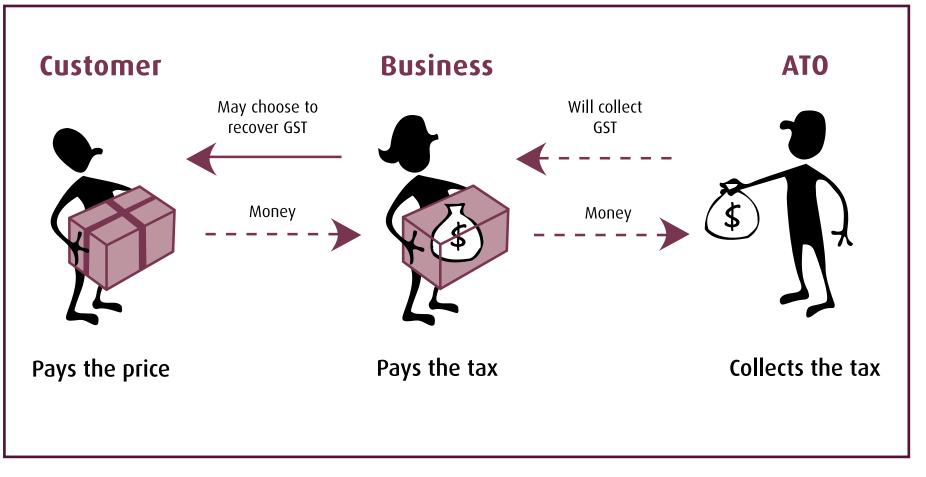
When you buy a theatre ticket

> you (the customer) pay the agreed price for the ticket

> the producer/venue/ticket agent (the supplier) provides you with the ticket for the agreed price

Under GST, the supplier pays GST out of the agreed price to the ATO. So in this example, the supplier is entitled to pass on to you the cost of GST, by setting a price for the ticket that includes GST amount.

The basic principle behind GST can be summarised as follows:



GST applies to transactions

GST is a tax on business transactions. Transactions under GST are also called supplies.

Transactions are an exchange of resources - goods, services, resources, obligations, work effort. This exchange results in inputs to your business (things you buy or receive from others) and outputs from your business (things you sell or provide to others).

Are all supplies taxable?

There are four categories of supplies

1. taxable supplies

2. GST-free supplies

3. input taxed supplies

4. supplies made by a supplier who is not registered for GST

Under GST, most supplies will be taxable - their price will include GST. Supplies that fit the ATO definition of GST-free or input taxed supplies are not taxable - their price will not include GST.

Supplies made by a supplier who is not registered for GST **cannot include GST in their prices.**

Taxable supplies

A taxable supply is:

> the SUPPLY of something - goods, services, resources, work effort, obligations

> for CONSIDERATION - in cash or 'in kind' (non-cash payments can be goods, services, resources, work effort, obligations)

> connected with AUSTRALIA

> by a GST REGISTERED business

unless the taxation rules say that it is GST-free or input taxed.

Supply

You may supply some or all of the following:

> tickets
> artwork
> tuition
> performances
> manuscripts
> compositions
> membership services
> management expertise
> advertising for sponsors and benefactors
> other goods and services

Consideration

GST can only apply when consideration or payment is involved in a supply.

The payment you make, or the price you charge for the supply, may be:

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

Consideration applies to you because:

> you receive consideration or payment from others for the things you supply when members, patrons and others pay for the services and goods they receive from you, and government grants and subsidies
> you pay for things supplied to you by others, for example office rent, telephone, maintenance work

Connection with Australia

Anything done or made in Australia or imported into Australia can be subject to GST. There are specific exceptions to this rule. For artists this will involve goods that are exported or services performed outside of Australia.

Registered suppliers

GST can only be charged on supplies provided by a supplier who is registered for GST with the ATO or who intends to be registered within the transitional timeframe.

Suppliers who are not registered for GST with the ATO cannot charge GST on their supplies (and cannot claim input tax credits).

Registration is for a period of 12 months from the date of registration.

You cannot decide to go in and out of the GST system for shorter periods of time.

GST-free supplies

The ATO has defined some supplies as GST-free supplies.

GST-free supplies include:

> certain non-commercial activities of charities and deductible gift recipients - these are supplies where the price you charge is less than 50% of GST-inclusive market value, or less than 75% of the cost of the supply. This includes charitable activities provided for no cost

> supplies of donated secondhand goods that have not been processed, and raffles and bingo by charities

> water and sewerage services

> basic foods

> education (the ATO is preparing a Tax Ruling to outline the types of education courses which will be considered GST-free)

> childcare

> healthcare services

> religious services

> cars for use by disabled people

Suppliers of GST-free supplies do not pay GST to the ATO for that supply, but they can claim input tax credits for acquisitions related to the supply.

Note: GST-free supplies clearly have implications for organisations who are recognised by the ATO as charities or deductible gift recipients, and in other cases too

Input taxed supplies

Supplies that have been listed by the ATO as input taxed supplies are not taxable.

The main types of input taxed supplies are:

> financial supplies

> residential rent and the sale of residential premises

> school tuckshops and canteens

The supplier of an input taxed supply does not pay GST to the ATO for that supply, and they cannot claim input tax credits for acquisitions used to make the supply.

	Is GST (output tax) payable to the ATO?	**Can input tax credits be claimed (for acquisitions related to this supply)?**	**What is the GST liability? - the difference between any output tax and any input tax credits**
Taxable supplies artworks (provided at more than 75% of the market value)	✔	✔	GST paid **less** input tax credits = payment **or** refund
GST-free supplies services provided as the 'non-commercial activity of a charity' (provided at less than 75% of the market value)	✗	✔	Input tax credits = refund
Input taxed supplies commercial residential rent (provided at more than 75% of the market value)	✗	✗	= no payment **and** no refund

Input tax credits

An input tax credit is a credit for the amount of GST to be paid by an enterprise on acquiring goods or services where they are acquired for the use of the enterprise in the process of making taxable or GST-free supplies.

Registered suppliers are entitled to input tax credits which arise on creditable acquisitions. **Generally, your creditable acquisitions will be equal to the GST you have paid out in conducting your business.**

The amount of the input tax credit is equal to the amount of GST included in the price paid for the creditable acquisition. However, the amount of the input tax credit is reduced if the acquisition is only partly for a creditable purpose.

Creditable acquisitions

There are two different types of acquisitions in the GST law:

> creditable acquisitions

> other types of acquisitions (for which no input tax credit is available for any GST included in the price paid)

Businesses will have to develop appropriate procedures to ensure that all creditable acquisitions are properly identified so that the input tax credits can be claimed. If this is not achieved, then the business will be failing to maximise its legal entitlements to claim input tax credits to offset against GST it is required to account for.

To identify creditable acquisitions, it is important to understand the concepts of acquisition and creditable purpose for GST purposes.

Acquisition

The definition of acquisition is, in most respects, a mirror image of the definition of supply.

Acquisition is defined to include:

> an acquisition of goods

> an acquisition of services

> a receipt of advice or information

> an acceptance of a right

> an acceptance of something the supply of which is a financial supply

> an acquisition of a right to require another person to do anything

Creditable purpose

An acquisition is deemed to be made for a "creditable purpose" to the extent that the thing acquired is for the carrying on of an enterprise.

An acquisition is not for a creditable purpose to the extent that it is related to making supplies that would be input taxed, or was an acquisition of a private or domestic nature.

EXAMPLE

Jordan buys a fax machine for $2,200 (including $200 GST). She plans to use the machine 20% for private purposes relating to her volunteer activities at the local community art centre and 80% relating to her small music studio and recording business.

Jordan can claim an input tax credit of 80% of the GST paid in the prices of the machine, that is 80% of $200 which is $160.

You cannot claim an input tax credit to the extent that certain provisions in the *Income Tax Assessment Act 1997* (ITAA 1997) or the *Income Tax Assessment Act 1936* (ITAA 1936) prevent you from being able to deduct the expenditure, or limit the amount you are able to deduct.

This would include the following:

> certain penalties

> a relative's travel expenses

> expenses incurred in maintaining your family

> recreational club expenses

> expenses for a leisure facility or boat

> entertainment expenses

> non-compulsory uniforms

> provision of non-deductible non-cash business benefits

> car parking for certain self-employed persons, partnerships and trusts

> expenditure on a car which exceeds the car depreciation limit

It is obviously very important to understand these limitations to ensure that you only claim the correct amount of input tax credits from the ATO.

Imports

GST is payable on most goods imported into Australia and will be payable whether you are registered or not. GST is paid to the Australian Customs Service. If you are registered for GST, you will be able to claim an input tax credit on things imported for your business for which you have paid GST.

The value of the taxable importation is the sum of the customs value of the goods, any customs duty payable and the amount paid or payable to transport the goods to Australia and insure the goods for transport.

Temporary importations under security

Where goods are temporarily brought into Australia for only a nominated period and then taken out again, payment of customs duty and other taxes may not be required. This concession applies where the importer provides a security or undertaking to pay customs duty and taxes only if the goods remain in Australia. No duty or taxes are payable while the goods are used in accordance with the terms of the security.

The subsequent return of the goods to their overseas owners is not a supply by the Australian organisers or managers, and no GST consequences arise upon their return.

Tax invoices for imports

Tax invoices are not required for taxable importations. Instead, you must have the relevant documentation issued by Customs to support input tax credit claims.

If you import items for the purposes of resale, you will be liable for GST on the import, but can claim a credit for that amount as the input tax credit. You are referred to *Importing & The New Tax System* for further information, including information about the importation deferment scheme.

Bringing art work you have created back into Australia

Whether an artist will have a GST liability on his/her artwork brought back to Australia upon return from living overseas will depend upon how the artist holds the artwork. If it is part of the artist's personal property, GST does not apply. If the artwork forms part of the artist's stock in trade and is for sale, then the GST will be payable of 1/11th of the customs value. If registered for GST, the artist will be able to claim an input tax credit for an equivalent amount.

Exports

Generally goods that are supplies for consumption outside Australia are GST-free. The treatment of services will, by its nature, not be as clear as it relies on concepts such as where the service is performed, where the benefit is obtained, and whether the service is in relation to goods in Australia.

Exports of goods are GST-free if:

> they are exported within 60 days of payment of any consideration for the supply, on receiving a final instalment of a supply under an instalment contract, or invoicing the supplier (whichever event occurs earlier), or if the goods are exported before any of these things happen

> the items are consumables for international flights or voyages, regardless of whether they may be partially consumed on a domestic leg of the journey

> the items are exported by an overseas traveller in accompanied baggage

> the export is of goods used to repair other goods from outside Australia (where they become part of the goods being repaired, or unusable or worthless as a result of the repair)

> where the item is an aircraft or ship, it leaves Australia under its own power within 60 days of physical possession of the vessel being taken by the recipient (The Australia Council magazine "Artforce" would love to hear from an Australian artist who is in business exporting aircraft - it makes a great story!)

EXAMPLE

Mundawoy, an Aboriginal artist, has a contract with an overseas customer to paint an Australian landscape that will take 6 months to paint. It will be exported 30 days after completion. Payment for the contract is made in monthly instalments, with the final payment due on completion. Mundawoy will not issue invoices for the monthly instalments.

The supply is GST-free if he exports the painting before or within 60 days of receipt of the final instalment.

It is important that you keep records showing that the goods were exported within 60 days for them to be *GST-free.* Examples of such records will include:

> airway bills

> bills of lading

> evidence from the Australian Customs Service that the goods were exported

> evidence that the goods arrived in the country of destination, provided by the customs authorities of that country.

The Tax Commissioner has the discretion to extend the 60 day period in circumstances that he deems appropriate.

Exports of services are GST-free if:

> the supply is directly connected with goods or real property outside Australia

> the recipient of the supply is not an Australian resident, the service is supplied while outside Australia, and the supply is not directly connected with goods in Australia when the service is performed, or real property situated in Australia

> the recipient of the supply receives the supply while outside Australia, the effective use or enjoyment of the supply takes place outside Australia, and the supply is not directly connected with goods in Australia when the service is performed, or real property situated in Australia

> the supply is in relation to rights for use outside Australia or the supply of rights is to an enterprise which is not an Australian resident, and it is outside Australia when the supply is made

> the supply is of services for the repair, renovation, modification or treatment of goods from outside Australia and whose destination is outside Australia

1.6 Working out the amount of GST

Working out the amount of GST you have to send to the ATO and working out how to include GST in your price are done in slightly different ways.

Setting the price inclusive of GST

The rate of GST is 10% and this is the rate imposed on the value of what you sell. Broadly speaking, the value is the selling price *before* GST.

Price = Value (ie what you want to receive ignoring GST) + 10%

Price will always be GST inclusive. Value will always be GST exclusive. GST does not mean simply adding 10% to your current prices.

How much do you owe the ATO?

The amount you owe the ATO is always calculated by reference to your price no matter how it has been worked out.

Therefore, for sales that are subject to GST your liability is calculated as:

GST Liability = Price ÷ 11

You sell 100 adult tickets to a performance at $22 per ticket.
Your GST liability will be:

$2,200 ÷ 11 = $200

You receive $55,000 worth of sponsorship in cash.
Your GST liability will be:

$55,000 ÷ 11 = $5,000

Note, where you get something in return for a taxable supply that is not money, the GST-inclusive market value of what you receive will be used in calculating your GST liability.

You receive $5,500 (GST-inclusive) worth of sponsorship as contra in the form of sound equipment. Your GST liability will be:

$5,500 ÷ 11 = $500

How to work out your input tax credit

An input tax credit is the GST paid in the prices of inputs if they are creditable acquisitions. These are things you buy to run your business.

Sometimes a tax invoice you receive will separately show GST. In that case, your input tax credit is equal to the amount of GST shown, provided you are entitled to a full input tax credit.

However, if the items on the tax invoice are all fully taxable supplies, it may simply show the total price and a statement that the total amount payable is inclusive of GST. If that is the case, you work out your input tax credit entitlement as:

Input tax credit = Price ÷11

GST liability: GST payable or GST refund?

A business registered for GST can offset the amount of GST they must pay to the ATO (the output tax) against the amount of GST they can claim back (the input tax).

The difference between the GST they must pay and the input tax credits they can claim back is their GST liability. This will be GST payable or a GST refund.

EXAMPLE

An Aboriginal Arts Centre has Input Tax Credits available from audit fees (cost $550 so Input Tax Credit = $50) and buying a set of tools (cost $440 so Input Tax Credit = $40).

Total Input Tax Credits = $90

The Arts Centre has also earned $440 in sales of artwork. The income includes $40 GST payable to the ATO.

Total GST payable to the ATO = $40

The amount owing and the Input Tax Credits are offset. The result is that the Arts Centre will receive a $50 ($90 - $40) refund from the ATO.

EXAMPLE

A theatre company has purchased sound equipment for $3,300.

There is an amount of $300 (1/11 of $3,300) that can be claimed back as an input tax credit.

The theatre company received a local government grant of $5,500 for a community project. Grants are a taxable supply, so they must pay $500 GST to the ATO (1/11th of $5,500).

The available input tax credits $300 are taken away from the GST payable of $500, leaving a balance outstanding of $200. So for this tax period the theatre owes an amount of $200.