

Simplified GST accounting methods

Describes the simplified accounting methods for small food retailers and explains when they can be used.



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TERMS WE USE

When we say:

- **sales**, we are referring to the GST term **supplies**
- **purchases**, we are referring to the GST term **acquisitions**
- **GST credit**, we are referring to the GST term **input tax credit**
- **payment made or received**, we are referring to the GST term **consideration**
- **SAM**, we are referring to the simplified accounting method for GST purposes.

You should familiarise yourself with these GST terms, as they are broader than the simpler terms.

If you are not sure of the meaning of some other terms used in this guide, refer to the list of definitions on page 20.

ABOUT THIS GUIDE

This guide will help you work out:

- whether any of the simplified GST accounting methods (SAM) are available to you
- whether you should use a simplified GST accounting method
- which simplified GST accounting method would suit you best
- how to notify us of your election.

If you choose to use a simplified GST accounting method, you must notify us in writing using *Election to use a simplified GST accounting method* (NAT 4370). You can obtain a copy of this form from our website.



For information about how to complete your activity statement if you use a simplified GST accounting method, refer to:

- *GST – completing your activity statement – purchases snapshot method* (NAT 15978)
- *GST – completing your activity statement – business norms method* (NAT 16013)
- *GST – completing your activity statement – snapshot method* (NAT 16014)
- *GST – completing your activity statement – stock purchases method* (NAT 16015)
- *GST – completing your activity statement – sales percentage method* (NAT 16016)

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INTRODUCTION

Many small food retailers buy and sell products that are taxable as well as products that are GST-free. Others buy taxable and GST-free products and sell only taxable products. Depending on the point-of-sale equipment they use, accurately identifying and recording GST-free sales separately from those that are taxable can be difficult, which makes accounting for GST complicated.

We introduced simplified GST accounting methods to make it easier to account for GST. These methods will help you work out the amount of GST you are liable to pay to us at the end of each tax period.

There are five methods to choose from, so you need to decide which one is best for your business. The averaging involved in these methods cannot be used to set your prices. You should do this in line with the Australian Competition and Consumer Commission's (ACCC) guidelines.

AM I ELIGIBLE TO USE A SIMPLIFIED GST ACCOUNTING METHOD?

You may be eligible to use a simplified GST accounting method if you meet all of the following conditions:

- you are registered for GST
- you are a retailer who sells both taxable and GST-free food at the same premises (unless you want to use the purchases snapshot method)
- your relevant turnover is not more than \$2 million:
 - SAM turnover of \$2 million or less for the snapshot method, stock purchases method and business norms method, or
 - GST turnover of \$2 million or less for the sales percentage method and purchases snapshot method.

It does not matter whether you use a cash or non-cash basis of accounting.

NOTE

Refer to the list of definitions on page 20 for explanations of the terms SAM turnover and GST turnover. There are also specific eligibility criteria that must be met for each type of simplified GST accounting method.

WHAT ARE THE SIMPLIFIED GST ACCOUNTING METHODS?

There are five simplified GST accounting methods to choose from, depending on:

- your turnover
- the nature of your business
- the nature of your point-of-sale equipment (except for the purchases snapshot method).

The following table summarises these methods but they are explained in detail later in this guide.

These methods help you work out the information you need to correctly complete the GST section of your activity statement. However, they can only be applied to sales and purchases of trading stock. If you decide to use a simplified GST accounting method, you will still need to separately consider other sales (such as non-stock or capital items) and expenses (such as rent, phone and any capital items) when you complete your activity statement.

Method	Business norms	Stock purchases	Snapshot	Sales percentage	Purchases snapshot
Turnover threshold	SAM turnover of \$2 million or less	SAM turnover of \$2 million or less	SAM turnover of \$2 million or less	GST turnover of \$2 million or less	GST turnover of \$2 million or less
How you estimate your GST-free sales and/or purchases	You apply standard percentages to your sales and purchases.	You take a sample of purchases and use this sample.	You take a snapshot of your sales and purchases and use this.	You work out what percentage of GST-free sales you made in a tax period and apply this to your purchases.	You take a snapshot of your purchases and use this to calculate your GST credits.
	See business norms method on page 5.	See stock purchases method on page 6.	See snapshot method on page 10.	See sales percentage method on page 12.	See purchases snapshot method on page 13.

WHICH METHOD CAN I USE?

To help you make a decision, you need to work out your turnover and know whether you are either a:

- **reseller** you resell stock without converting it into different products
- **converter** you buy GST-free goods and convert them into taxable goods. For example, if you buy potatoes (which are GST-free) and sell them as cooked chips (which are taxable), you are a converter.

If you are both a reseller and a converter (for example, if your business is a snack bar), you are treated as a converter.

Use the following table to work out which methods you may be able to use. Refer to the additional criteria specified under each method.

Your business profile	Business norms	Stock purchases	Snapshot	Sales percentage	Purchases snapshot
Your turnover is \$2 million or less, and you are a reseller.	✓	✓	✓	✓	✓
Your turnover is \$2 million or less, you are a converter and your conversions make up less than 5% of total sales.	✓	X	✓	✓	✓
Your turnover is \$2 million or less, you are a converter and your conversions make up 5% or more of your total sales.	✓	X	✓	X	✓

⚠ Turnover is based on:

- SAM turnover for the business norms, stock purchases and snapshot method
- GST turnover for the sales percentage and purchases snapshot method.

CAN I CHANGE MY MIND?

After electing to use a simplified GST accounting method, you cannot change your method of GST accounting in the first 12 months.

If you stop using a simplified GST accounting method by revoking your choice, you cannot choose to use another simplified GST accounting method in the first 12 months after revoking your decision.

CHOOSING A SIMPLIFIED GST ACCOUNTING METHOD

By now you should have eliminated some methods you cannot use, due to your turnover and the percentage of products you resell or convert.

If your turnover is \$2 million or less, you will need to read the detailed information about the five methods to decide which one suits your business best. It is important to note that your turnover is worked out differently depending on the method you want to use:

- If you want to use the business norms, snapshot or stock purchases method, you will need to work out your SAM turnover.
- If you want to use the sales percentage or purchases snapshot method, you will need to work out your GST turnover.

BUSINESS NORMS METHOD

If your SAM turnover is \$2 million or less, the business norms method is the simplest way for you to work out how much GST you owe or are owed so you can complete your activity statement.

Can I use this method?

You can use this method only if you meet all of the following conditions:

- your SAM turnover is \$2 million or less
- you do not have adequate point-of-sale equipment
- your business is of the type mentioned in the following table.

How does it work?

When using the business norms method, you estimate your GST-free sales and purchases by applying standard percentages (known as business norms) to your total sales and purchases for every tax period.

You don't have to work out the percentage as this has already been done for you (see the following table). Each type of retailer has a standard percentage that is considered to be a business norm. You should use the relevant percentage rate for your type of business to calculate your GST-free sales and purchases. These percentages have been developed in consultation with industry representatives and from research gathered directly from retailers.

! If your business type is not listed in the following table, you cannot use the business norms method. However, you may be able to use either the stock purchases method or the snapshot method.

Business norms

Type of retailer	GST-free sales	GST-free purchases of stock
Cake shops	2%	95%
Continental delicatessens	85%	90%
Convenience stores that prepare takeaway food but do not sell fuel or alcohol	22.5%	30%
Convenience stores that do not prepare takeaway food and do not sell fuel or alcohol	30%	30%
Fresh fish retailers	35%	98%
Health food shops	35%	35%
Hot bread shops	50%	75%
Pharmacies that also sell food	Dispensary: non-claimable 98%	Nil
	Over the counter: 47.5%	2%
Rural convenience stores	Converters: 22.5%	30%
	Non-converters: 30%	30%

➔ For more information about using the business norms method, refer to 'Related publications' on page 22.

To estimate your GST-free sales and purchases using the business norms method, follow these steps:

- Step 1** Work out your total stock sales for the tax period.
- Step 2** Multiply your total stock sales by the percentage from the business norms table (on page 5) that is relevant to your business. The result is your total GST-free sales.
- Step 3** Work out your total stock purchases for the tax period.
- Step 4** Multiply your total stock purchases by the percentage from the business norms table (on page 5) that is relevant to your business. The result is your total GST-free purchases.

EXAMPLE: Business norms method

Carlo has a hot bread shop that includes GST-free sales and GST-free purchases. Since he chooses to use the business norms method to calculate the GST he owes or is owed, the standard percentages he must use (as shown in the table on page 5) are 50% for his GST-free sales and 75% for his GST-free purchases.

Using this method, Carlo works out 50% of his total sales for the period to arrive at his GST-free sales figure. He works out 75% of his total stock purchases to arrive at his GST-free purchases figure.

Sales

Total stock sales for tax period	= \$120,000
GST-free sales (50% of \$120,000)	= \$60,000

Purchases

Total stock purchases for tax period	= \$95,000
GST-free purchases (75% of \$95,000)	= \$71,250

STOCK PURCHASES METHOD

The stock purchases method is designed for businesses that are resellers, not converters.

Can I use this method?

You can only use the stock purchases method if you meet all of the following conditions:

- you are a reseller (you purchase food items and then sell them in an unchanged form)
- you do not have adequate point-of-sale equipment, and
- you have a SAM turnover of \$2 million or less.

If you are a **converter** (you buy GST-free ingredients and convert them into taxable items), you cannot use this method. You may be eligible to use either the business norms method or the snapshot method.

You may be eligible to use the stock purchases method if you operate a business such as (but not limited to) one of the following:

- grocery store or supermarket
- convenience store or milk bar
- video hire outlet
- health food shop
- continental delicatessen
- butchery
- service station
- newsagency
- greengrocer's store.

How does it work?

When you use the stock purchases method, the percentage of your GST-free sales will be the same as the percentage of your GST-free purchases.

There are three ways you can use the stock purchases method:

- 1** Every tax period – you work out your GST-free purchases accurately but estimate your sales.
- 2** Two four-week sample periods – you reduce your administrative workload further by choosing to estimate both your GST-free sales and purchases.
- 3** The 5% GST-free stock estimation basis – you track only the GST-free goods that you purchase and resell (such as bottled water, pure fruit juice, milk or fresh fruit). This will reduce your administrative workload even further.

You must complete a daily worksheet detailing your calculations. If you choose to use every tax period or two four-week sample periods, this worksheet should contain a breakdown of your total purchases for the period. It should distinguish between your taxable and GST-free purchases.

If you choose to use the 5% GST-free stock estimation basis, your worksheet should show only the GST-free purchases that you resell GST-free for each tax period.

Every tax period

Using this option, you calculate the GST credits on your purchases but only estimate the GST you are liable to pay on your sales. You do this in four steps:

- Step 1** Record your total stock purchases.
- Step 2** Record your total GST-free stock purchases.
- Step 3** Divide your GST-free stock purchases by your total stock purchases to calculate your percentage of GST free purchases.
- Step 4** Apply this percentage to your total stock sales to estimate your total GST-free sales for the period.

Using this method, for every tax period you must calculate the percentage of your total purchases that are GST-free.

EXAMPLE: Every tax period

Connie runs a grocery store and decides to use the stock purchases method to calculate how much GST she owes or is owed.

She only resells goods and doesn't convert any items. During a quarterly tax period, Connie purchases trading stock totalling \$203,000, which includes GST-free stock totalling \$99,470. Connie also sells stock totalling \$219,500 during the same period.

Connie works out her total GST-free sales by using the four steps:

- Step 1**
Total stock purchases = \$203,000
- Step 2**
Total GST-free stock purchases = \$99,470
- Step 3**
Percentage of GST-free stock purchases
($\$99,470 \div \$203,000 \times 100$) = 49%
- Step 4**
Total GST-free sales ($\$219,500 \times 49\%$) = \$107,555

Using this method, Connie has to do the above calculation every tax period.

Two four-week sample periods

Using this option, you estimate your GST-free purchases as well as your sales. You need to calculate the percentage of your total purchases that are GST-free for two four-week periods during the financial year. You then apply the percentage to both your total purchases and sales to calculate your GST-free purchases and sales.

You do this in five steps:

- Step 1** Record your total stock purchases for the four-week sample period.
- Step 2** Record your total GST-free stock purchases for the four-week sample period.
- Step 3** Divide your GST-free stock purchases by your total stock purchases to calculate your percentage of GST-free purchases.
- Step 4** Apply this percentage to your total stock purchases to estimate your GST-free stock purchases for the tax period.
- Step 5** Apply the same percentage to your total stock sales to estimate your GST-free sales for the tax period.

The four-week sample periods must be continuous and should take place between both:

- 1 June and 31 July (to cover the period from July to December)
- 1 December and 31 January (to cover the period from January to June).

Sampling is done at these times to allow for seasonal fluctuations. However, if you have recently started your business, your first sample period should be in the first two months of trading.

If you choose to calculate your GST-free stock purchases percentage for two four-weekly sample periods, you use this percentage for every tax period until the next sample period.

EXAMPLE: Two four-week sample periods

Andrew runs a supermarket in which he resells all his goods. He doesn't convert any GST-free goods into taxable products.

Andrew's tax invoices for a four-week sample period show that he has total stock purchases of \$60,000 and total GST-free purchases of \$29,400.

For the full tax period (quarter of the year), Andrew has total stock purchases of \$203,000 and total trading sales of \$219,500.

He works out his total GST-free sales for the tax period using the five steps:

- Step 1**
Total stock purchases for the sample period = \$60,000
- Step 2**
Total GST-free purchases for the sample period = \$29,400
- Step 3**
Percentage of GST-free purchases
(\$29,400 ÷ \$60,000 × 100) = 49%
- Step 4**
Total GST-free purchases for the tax period
(\$203,000 × 49%) = \$99,470
- Step 5**
Total GST-free sales for the tax period
(\$219,500 × 49%) = \$107,555

Andrew applies the 49% rate to his total stock purchases and sales for subsequent tax periods until he completes the next four-weekly sample.

The 5% GST-free stock estimation basis

The following food retailers are likely to use the 5% GST-free stock estimation basis:

- kiosks that don't prepare takeaways
- service stations
- video hire outlets
- newsagents.

To make the stock purchases method even easier for retailers of mainly taxable goods, we have simplified the stock purchases method further with the 5% GST-free stock estimation basis.

You can use this estimation basis for goods that you purchase GST-free and that you will resell GST-free (such as bottled water, pure fruit juice, milk or fresh fruit). You may use this basis if your past or projected trading patterns (or your supplier's tax invoices for the tax period) show that your GST-free stock purchases that you will resell GST-free represent not more than 5% of your total stock purchases.

EXAMPLE: The 5% GST-free stock estimation basis

Valda's Video Hire has suppliers' tax invoices for the tax period that show total stock purchases of GST-free items of \$750, as follows:

Bottled water	=	\$300
Pure fruit juice	=	\$450
Total		\$750

Valda's total stock purchases are \$24,000, so her GST-free stock purchases are only 3.1% of this total.

As GST-free stock purchases are less than 5% of her total stock purchases, Valda can use this estimation basis.

Using this option, you work out your purchases for each product line and add these up to work out your total GST-free purchases. You estimate your total GST-free sales for each product line by applying your mark-up to the totals, then adding your estimated GST-free sales for each product line to calculate your total GST-free sales.

You do this in four steps:

- Step 1** Record and add your purchases for each GST-free product line.
- Step 2** Add each GST-free product line total to calculate your total GST-free stock purchases.
- Step 3** Apply your mark-ups to the totals (from step 1) to estimate total GST-free sales for each product line.
- Step 4** Add your estimated GST-free sales for each product line to calculate your total GST-free sales.

If your mark-up is the same for each product line, you don't have to separately record the totals for each product line. Only record the total amount of GST-free stock purchases. Apply your mark-up to this amount to calculate your GST-free sales.

EXAMPLE: Calculating GST-free purchases and sales

Using the previous example, Valda has GST-free stock purchases totalling \$750 for the tax period (\$300 for bottled water and \$450 for pure fruit juice). Valda's mark-up is 40% for bottled water and 30% for pure fruit juice. She estimates her total sales are \$420 (\$300 + 40% mark-up) for bottled water and \$585 (\$450 + 30% mark-up) for fruit juice.

Valda adds these amounts to calculate her total GST-free sales of \$1,005 for the tax period.

If you choose to use this option, your worksheet should only show the GST-free purchases that you resell GST-free for each tax period.

SNAPSHOT METHOD

The snapshot method is similar to the stock purchases method except that you have to measure GST-free sales as well as GST-free purchases.

Can I use this method?

You can use the snapshot method if you are a food retailer with a SAM turnover of \$2 million or less, and do not have adequate point-of-sale equipment.

You may be eligible to use the snapshot method if you operate any of the following types of businesses (but not limited to):

- grocery shop or supermarket
- convenience store or milk bar
- video hire outlet
- fish and chip shop
- health food shop
- continental delicatessen
- butchery
- cake shop
- hot bread shop or bakery
- restaurant (dine-in and takeaway)
- sandwich bar
- kiosk or canteen
- tuckshop that is not input taxed.

How does it work?

There are three ways you can use the snapshot method:

- 1 Two sample periods – you reduce your administrative workload by choosing to estimate both your GST-free sales and purchases.
- 2 Every tax period – you work out your GST-free purchases accurately but estimate your sales.
- 3 The 5% GST-free stock estimation basis – you only track the GST-free goods that you purchase and resell (such as bottled water, pure fruit juice, milk or fresh fruit). This will reduce your administrative workload even further.

Two sample periods

If you use this option, you can take a snapshot of your trading and use the results to estimate your GST-free sales and GST-free purchases. You need to do the snapshot twice a year to account for seasonal fluctuations in your trading patterns, ideally between both:

- 1 June and 31 July (to cover the July to December tax periods)
- 1 December and 31 January (to cover the January to June tax periods).

If you start your business part way through the financial year, your first sample period should be in the first two months of trading.

To calculate the percentage of your GST-free trading, you must examine your sales over a continuous two-week period, and your purchases over a continuous four-week period (to make sure you account for irregular purchases).

You need to record the amount and type of transaction (whether it is taxable or GST-free) for all of your stock purchases and sales.

You also need to complete a daily worksheet detailing your calculations. At the end of the sample periods, you should have recorded:

- for sales:
 - your total sales over two weeks
 - your total GST-free sales over two weeks.
- for purchases:
 - your total stock purchases over four weeks
 - your total GST-free stock purchases over four weeks.

From your sample period, you work out the GST-free percentage of your total sales and the GST-free percentage of your total stock purchases. You then use these percentages for each tax period to calculate your GST-free amounts until you take your next snapshot.

EXAMPLE: Snapshot method

Maria is a convenience store owner who sells a variety of items, including groceries, newspapers, fresh fruit, vegetables, sandwiches and other takeaway food. She decides to use the snapshot method to calculate her GST-free sales and purchases.

She examines her business transactions for the two-week and four-week continuous periods and records the following:

Sales

Total sales for two weeks	=	\$24,500
Total GST-free sales for two weeks	=	\$17,640
Percentage of GST-free sales in total (\$17,640 ÷ \$24,500 × 100)	=	72%

Maria uses this percentage to calculate her GST-free sales for each tax period until she takes the next sample.

Purchases

Total stock purchases for four weeks	=	\$19,750
Total GST-free purchases for four weeks	=	\$15,405
Percentage of GST-free purchases in total (\$15,405 ÷ \$19,750 × 100)	=	78%

Maria uses this percentage to calculate her GST-free purchases for each tax period until the next sample is taken.

Every tax period

If you believe the four-week snapshot of stock purchases does not accurately represent purchases for your tax periods, you can calculate your purchases every tax period from your suppliers' invoices in the normal way.

You can still use the two-week snapshot method for estimating your GST-free sales, even if you choose not to use the snapshot method for your purchases. However, once you have chosen not to use the snapshot method for your purchases, you must continue to work out your actual purchases for the year.

You must also maintain a worksheet detailing your calculations.

The 5% GST-free stock estimation basis

The following food retailers are likely to use the 5% GST-free stock estimation basis:

- cafes and restaurants with takeaway sales of some GST-free items
- other takeaway food retailers (such as fish and chip shops)
- kiosks or canteens
- tuckshops that are not input taxed.

To make the snapshot method even easier for retailers of mainly taxable goods, we have simplified the snapshot method further using the 5% GST-free stock estimation basis.

You can use this estimation basis for goods that you purchase GST-free and that you will sell GST-free (such as bottled water, pure fruit juice, milk or fresh fruit). If you buy GST-free goods that you will both resell and convert (for example, you might resell some plain milk GST-free but you might also convert some of it into taxable milkshakes), you should include only the proportion of goods you have sold GST-free.

If you are only a reseller and not a converter, refer to 'the 5% GST-free stock estimation basis' under 'Stock purchases method' on page 6.

You may use this option if your past or projected trading patterns show that your GST-free stock sales don't make up more than 5% of your total stock sales.

EXAMPLE: The 5% GST-free stock estimation basis

Vera's Diner has GST-free sales of \$1,200 (made up of \$600 of bottled water and \$600 of milk).

Vera's total sales are \$30,000.

Vera can use this estimation basis because less than 5% of her total sales are GST-free.

How to use the 5% GST-free stock estimation basis

If you are eligible to use this option, follow these four steps:

- Step 1** For each product line that you will resell GST-free, record and add the net amount of GST-free purchases (reduced by the amount of purchases converted into taxable goods).
- Step 2** Apply your mark-ups to your net GST-free purchases (from step 1) to work out your GST-free sales for each product line.
- Step 3** Add your estimated GST-free sales for each product line to calculate your total GST-free sales.
- Step 4** To work out your GST-free purchases, you will need to either do a snapshot of your purchases or work out your GST-free purchases every tax period.

If your mark-up is the same for each product line, you don't have to separately record the totals for each product line. Only record the total amount of GST-free purchases. Apply your mark-up to this amount to calculate your GST-free sales.

EXAMPLE: Calculating GST-free sales

Lee's Lunch Spot buys a number of GST-free products in the tax period. Lee examines her records and notes that her GST-free purchases for the tax period are bottled water (\$500) and milk (\$1,000).

Lee converts \$200 worth of the milk purchases into taxable milkshakes and resells \$800 worth of this milk GST-free.

Lee works out her GST-free sales as follows:

Step 1

The GST-free product lines she bought GST-free and then resold were bottled water (\$500 worth) and milk (\$800 worth – \$1,000 reduced by \$200).

Step 2

She applied mark-ups of 60% for bottled water (\$500 + 60% = \$800) and 30% for milk (\$800 + 30% = \$1,040).

Step 3

Her GST-free sales totalled \$1,840 (\$800 for bottled water + \$1,040 for milk).

If you choose to use this option, your worksheet should show how you worked out your GST-free purchases and your GST-free sales for each tax period.

SALES PERCENTAGE METHOD

The sales percentage method is designed for supermarkets or convenience stores (excluding petrol stations) that are almost exclusively resellers.

Can I use this method?

You can use this method if you meet all of the following conditions:

- have a GST turnover of \$2 million or less
- have adequate point-of-sale equipment
- operate a supermarket or convenience store (not a petrol station)
- convert 5% or less of your goods into taxable products.

For example, if you sell 95% of your products in an unchanged form but 5% of your sales are from taxable sandwiches (which you make using GST-free bread and ingredients), you are eligible to use this method.

How does it work?

If you choose this method, you examine the total sales in each tax period and work out the GST-free percentage of your total sales. You then apply this percentage to your purchases (trading stock only) for the tax period to estimate your GST-free purchases.

The sales percentage method assumes that if you only resell goods that you purchase, the percentage of your GST-free sales will be similar to the percentage of your GST-free purchases.

EXAMPLE: Sales percentage method

Anita owns a small supermarket. She resells most of her goods and converts only about 2% of items into taxable sales (mostly cooked chickens). She decides to use the sales percentage method to calculate her GST.

In a quarterly tax period, Anita works out that she sells a total of \$200,000 in trading stock. Her records from point-of-sale equipment indicate that the total amount of GST-free sales is \$60,000. Her total trading stock purchases for the period equal \$100,000.

1 Total sales	=	\$200,000
2 Total GST-free sales	=	\$60,000
3 Percentage of GST-free sales (\$60,000 ÷ \$200,000 × 100)	=	30%
4 Total GST-free purchases (\$100,000 × 30%)		\$30,000

Anita has to do the above calculation every tax period using this method.

PURCHASES SNAPSHOT METHOD

The purchases snapshot method is similar to the snapshot method except it applies only to trading stock purchases. Therefore, you must use the normal GST rules to work out both:

- your GST credits on the purchases that are not trading stock
- your GST liability on sales.

When using this method, you must monitor your trading stock purchases over two four-week sample periods each financial year and work out the percentage of GST-free trading stock purchases you make. Each four-week sample period should represent the usual amount of trading stock purchases you make.

Can I use this method?

You can use the purchases snapshot method if you are a restaurant, cafe or caterer who is registered for GST, and have a GST turnover of \$2 million or less (GST-exclusive).

It does not matter whether you have adequate or inadequate point-of-sale equipment.

How does it work?

When using the purchases snapshot method, you calculate your GST credits by applying a percentage of GST-free trading stock purchases you work out over a four-week sample period.

To apply the purchases snapshot method, use the following steps:

- Step 1** Choose a four-week sample period.
- Step 2** Work out the percentage of GST-free trading stock purchases you made for that period.
- Step 3** Apply the percentage of GST-free trading stock purchases to your total trading stock purchases.
- Step 4** Work out the GST credits you are eligible to claim at the end of the tax period based on the GST-free trading stock purchases percentage you have worked out.

How do I choose a sample period?

If you elect to use the purchases snapshot method and you are either:

- a new business who wants to start using this method from the start date of the business
- an existing business who wants to start using this method for a tax period that is not within the set sample period dates (1 June – 31 July or 1 December – 31 January).

You can work out how to choose the first four-week sample period using the following table:

If	the first sample period
<ul style="list-style-type: none"> ■ your business is new, and ■ you want to use this method from the day your business starts 	must be within two months of the date you start selling food to customers.
<ul style="list-style-type: none"> ■ you operate an existing business, and ■ you want to use this method from the beginning of a tax period that starts on the 1st of: <ul style="list-style-type: none"> – February – March – April – May – August – September – October, or – November 	can be any of the following: <ul style="list-style-type: none"> ■ a four-week period during the tax period in which you start to use this method, or ■ a four-week period during whichever of the following periods has most recently passed: <ul style="list-style-type: none"> – 1 June to 31 July, or – 1 December to 31 January.

In all other situations, your four-week sample period must fall between either:

- 1 June and 31 July
- 1 December and 31 January.

How do I work out the GST-free trading stock percentage for the sample period?

First, work out the total amount of your trading stock purchases for the sample period that includes:

- where you account for GST on a cash basis – the total amount you pay for trading stock during the sample period, or
- where you account for GST on a non-cash basis – the total price of trading stock you have purchased when
 - an invoice has issued for the purchase, or
 - you have made any payment for the purchase whichever is the earlier.

After working out your total trading stock purchases, work out the total amount of these purchases that were GST-free.

Use the total trading stock purchases figure and the total GST-free trading stock purchases figure to do the following calculation:

$$\frac{\text{GST-free trading stock purchases in sample period}}{\text{Total trading stock purchases in sample period}} \times 100 = \text{GST-free trading stock percentage for the sample period}$$

If your first sample period is not between 1 June and 31 July or 1 December and 31 January, your GST-free trading stock percentage must be applied to all tax periods until the earlier of either:

- 30 June
- 31 December.

If your sample period is between 1 June and 31 July, your GST-free trading stock percentage must be applied to all tax periods between 1 July and 31 December.

If your sample period is between 1 December and 31 January, your GST-free trading stock percentage must be applied to all tax periods between 1 January and 30 June.

How do I work out the estimated GST-free trading stock purchases for the tax period?

Once you have worked out the GST-free trading stock percentage, use this percentage to work out your estimated GST-free trading stock purchases for each tax period until your next sample period. To do this, calculate the following:

$$\text{Total trading stock purchases for the tax period} \times \text{GST-free trading stock percentage for the sample period} = \text{Estimated GST-free trading stock purchases for the tax period}$$

When using this method, you don't have to hold tax invoices for your trading stock purchases when calculating your GST credits for a tax period. However, you must keep appropriate records, such as receipts and invoices, to explain how you calculated the GST credits.

How do I calculate my GST credits on the trading stock purchases for the tax period?

To work out your GST credits on trading stock purchases for the tax period, work out one-eleventh of your taxable trading stock purchases for the tax period. To do this, calculate the following:

$$\left(\text{Trading stock purchases for the tax period} - \text{Estimated GST-free trading stock purchases for the tax period} \right) \times \frac{1}{11} = \text{GST credits on trading stock purchases for the tax period}$$

EXAMPLE: Purchases snapshot method

Jim has been operating a restaurant for five years and he reports and pays his GST quarterly. His GST turnover is below \$2 million. Jim has not previously used a simplified GST accounting method. He has been identifying and recording the GST status and the amounts of all trading stock he purchases.

Jim decides to use the purchases snapshot method from 1 October 2006 to work out his GST credits for his trading stock purchases. He completes an election form to notify us of his decision.

- Step 1** Jim has been operating his business for some time and wants to start using the purchases snapshot method from 1 October 2006. He can choose either:
- a a four-week period between 1 October 2006 and 31 December 2006
 - b a four-week period between 1 June 2006 and 31 July 2006.
- Jim uses option b and chooses a sample period of 3 July – 30 July 2006 because he has already identified the GST status and the amounts of all trading stock for that period.

- Step 2** Jim works out that:
- the total cost of his trading stock purchases for the sample period is \$15,000
 - the total cost of his GST-free trading stock purchases for the sample period is \$10,500
 - the percentage of his GST-free trading stock purchases is 70%
 $(\$10,500 \div \$15,000 \times 100)$.

- Step 3** During the tax period 1 October – 31 December 2006, Jim purchased \$65,000 of trading stock. He works out that the total of his GST-free trading stock purchases for the tax period is \$45,500 $(\$65,000 \times 70\%)$.

- Step 4** Jim works out that the total of his GST credits on trading stock purchases for the tax period is \$1,773 $(\$65,000 - \$45,500) \times 1/11$. Jim uses this amount to work out the amount of GST he is liable to pay for the tax period.

Jim's next four-week sample period is between 1 December 2006 and 31 January 2007. Jim must apply the GST-free percentage of his trading stock purchases for this sample period to the following two tax periods:

- January – March 2007
- April – June 2007.

Jim will then need to choose another four-week sample period between 1 June and 31 July 2007 to calculate his GST credits for the tax periods:

- 1 July – 30 September 2007
- 1 October – 31 December 2007.

Jim must choose two four-week sample periods each financial year to work out the GST-free percentage of his trading stock purchases.

INCREASING ADJUSTMENTS IF YOU REVOKE YOUR ELECTION

If you include a purchase in your trading stock purchases for a tax period and later revoke your election to use a simplified GST accounting method, you may need to make an increasing adjustment to the activity statement you completed while you were using a simplified GST accounting method. The increasing adjustment ensures that you do not claim two GST credits for the same purchase.

This could happen if you didn't have a tax invoice when you included the purchase in your trading stock purchases when using a simplified GST accounting method, but you received the tax invoice after you revoked the method and started claiming GST credits under the normal attribution rules.

RECORD KEEPING

You must keep records for five years. You can keep your accounting records either as a hardcopy or in an electronic format.

Any calculations you make must give a fair and reasonable result. If you base your estimates and calculations on actual sales or purchases, the period you use should reasonably represent the usual sales and purchases your business makes. Don't use a period of abnormal sales.

You must retain your calculations and any documentation that supports the method you use so we can review them if necessary.

NOTIFYING US

If you decide to use a simplified GST accounting method, you must tell us which method you are going to use. You also need to let us know if you are going to stop using this method (after 12 months).

To do this, complete the applicable form:

- *Election to use a simplified GST accounting method* (NAT 4370)
- *Notice to revoke an election to use a simplified GST accounting method* (NAT 4371).

➤ Once you have completed the appropriate form, you can either:

- fax it to **electSAM** on **1300 139 031**
- mail it to **electSAM, GPO Box 9935 in your capital city.**

⊖ Once you have chosen a simplified GST accounting method, you cannot change methods for 12 months.

FREQUENTLY ASKED QUESTIONS

Q. Which simplified GST accounting method should I choose?

A. You should choose the method you are eligible to use that best suits your business. The table in the section 'Which method can I use?' on page 6 will help you decide.

Q. If my projected turnover is more than the relevant turnover threshold before the end of the first 12 months, will I need to use a full accounting method from that point?

A. No. If you meet the turnover threshold requirements when you choose your simplified GST accounting method, you can continue using it for the remaining tax periods in those first 12 months. The threshold is a SAM turnover of \$2 million or less for the business norms, snapshot and stock purchases methods, and a GST turnover of \$2 million or less for the sales percentage and purchases snapshot methods.

However, you will not be eligible to use a simplified GST accounting method in tax periods that start after the first 12 months.

Q. If I buy adequate point-of-sale equipment part way through the year, do I continue to use the simplified GST accounting method for the rest of the year?

A. No. Once you have installed point-of-sale equipment that you are satisfied accurately identifies and records GST-free sales separately from taxable sales, you are no longer eligible to use the simplified GST accounting method you have chosen. You must stop using this method from the beginning of the tax period after the day you purchased the point-of-sale equipment.

⚠ This rule does not apply to the sales percentage method or the purchases snapshot method.

Q. With the business norms method, why are the GST-free rates higher for hot bread shops than convenience stores?

A. The business norms percentages are based on the average values for each industry.

The percentages have been developed in consultation with a wide range of industry groups, including shop owners, industry representatives and peak bodies. Every industry has different characteristics and trading, so it makes sense that they have different levels of GST-free stock purchases and sales.

Q. Can I just estimate my GST-free sales but fully account for my purchases?

A. Only if you use either the stock purchases method or the snapshot method.

If you use the business norms method, you have to use the business norms percentages for your business type to calculate both your GST-free sales and your GST-free purchases. You cannot estimate the GST-free sales under the sales percentage and purchases snapshot methods.

Q. If I use a simplified GST accounting method, what happens if a customer needs a tax invoice to claim a GST credit?

A. If the price of a sale is \$82.50 or less (including GST), you don't have to issue a tax invoice and your customer does not need one to claim the GST credit. Any documentary evidence (for example, cash register receipts) is sufficient.

If the price of the sale is for more than \$82.50 (GST inclusive), you have to issue the tax invoice within 28 days to your customer. If your system cannot generate a tax invoice then you must manually prepare one.

Q. With the snapshot method, if I start my business during the year, say in September, do I have to wait until a later tax period to start using the snapshot method? When should I take a snapshot of my trading?

A. No. If you start your business part way through the financial year, you can use the snapshot method for your first tax period, as long as your first sample period is in the first two months of trading.

Q. If my business has been operating for years, but I choose to use the snapshot method from 1 September, do I have to wait until the 1 December – 31 January sample period to do my snapshot of trading before I start to use the method?

A. No. Once you choose to use the snapshot method, you can conduct your first snapshot of trading and start using the snapshot method in the tax period when you make that choice.


Q. If my business has two activities (for example, fresh fish wholesaling and cooked fish and chip retailing), does the turnover threshold apply to my combined activities or separately to each activity?

A. The turnover threshold applies to the total turnover of your combined activities (as long as both activities are food retailing), not the turnover of each activity.

If the total turnover of your combined activities is \$2 million or less, you can use simplified GST accounting methods for the food retailing parts of your business.

If the turnover from one of your activities is less than the turnover threshold, but the total turnover of your combined activities is more than \$2 million, you cannot use any simplified GST accounting methods.

Special rules apply if you are a rural convenience store or pharmacy using the business norms method. See 'More information' on the inside back cover to find out how to obtain the relevant fact sheet.

 For more information, refer to the fact sheets listed in 'Related publications' on page 22.

DEFINITIONS

Adequate point-of-sale equipment

Your point-of-sale equipment will be regarded as adequate if it can both:

- identify and record each separate sale as either GST-free or taxable
- identify and record separately the amount of your GST-free and total sales.

A cash register that has a GST-free or taxable key relies on the operator to work out the GST status of each of the goods they sell. This point-of-sale equipment is not considered adequate as it does not identify a product as GST-free or taxable.

Adequate point-of-sale equipment will generally include:

- electronic scanning systems
- touch screen registers
- product-specific cash registers.

This kind of equipment can retain and apply information on products, including whether they are taxable or GST-free. If you have this kind of equipment but it cannot separately identify and record your GST-free and total sales, or if your point-of-sale equipment is even less sophisticated, you can use a simplified GST accounting method that does not require adequate point-of-sale equipment.

Activity statement

If your business is registered for GST, you use an activity statement to report your tax obligations and entitlements. In your activity statement, you report:

- the amount of GST payable on sales your business makes
- GST included in the price of things your business purchases (GST credits you are entitled to)
- income tax instalments
- amounts withheld from payments you have made to others.

Depending on your circumstances, your business will lodge an activity statement on an annual, quarterly or monthly basis.

Convenience store

'Convenience store' is a term used to describe a business that sells a mixture of goods, including bread, dairy products, cigarettes, confectionery and grocery lines. A convenience store can be a corner store, a mixed business, a milk bar or a deli, but not a continental delicatessen.

A convenience store may also sell takeaway food, for example, freshly prepared sandwiches. If it sells takeaway food, but the takeaway food sales are not the business's main source of income, it is a convenience store.

On the other hand, if a business's income is mainly from the sales of takeaway or dine-in food (such as a fish and chip shop) but it also sells some 'mixed business' product lines (for example, cigarettes, ice-creams, milk, bread and some grocery lines), it is not a convenience store.

Converter

A 'converter' is a food retailer who purchases GST-free goods and converts them into taxable goods, for example, a retailer who buys bread and sandwich ingredients and converts them into sandwiches. If you are both a reseller and a converter (for example, if your business is a snack bar), you are treated as a converter.

GST turnover

Your turnover helps to determine which simplified GST accounting method you can use. You must have a GST turnover of \$2 million or less if you want to use the sales percentage or purchases snapshot method.

If you know your turnover is clearly below the relevant threshold, you don't need to perform any calculations to determine your eligibility.

Your GST turnover is your gross business income (not your profit), excluding any:

- GST included in sales to your customers
- sales not connected with an enterprise that you carry on
- input taxed sales you make
- sales not connected with Australia.

Your GST turnover is over the threshold if either:

- your turnover for the current month and the previous 11 months is more than \$2 million (current GST turnover)
- your turnover for the current month and the next 11 months is likely to be more than \$2 million (projected GST turnover).

In working out your projected GST turnover, you do not include amounts received for the sale of a business asset or any sale made, or likely to be made, solely as a consequence of ceasing or substantially and permanently reducing the size of the business.

Input tax credits (GST credits)

Input tax credits are the credits you can claim if your business is registered for GST. They are also referred to as GST credits. You can claim input tax credits for the GST included in the price you pay for your purchases or imports if you use them in your enterprise. However, you cannot claim input tax credits used to make input taxed supplies.

You need to have tax invoices for all the purchases you are going to claim input tax credits for, except those worth \$82.50 or less (including GST).

Reseller

A 'reseller' is a food retailer who buys GST-free goods that are still GST-free when he resells them. In other words, resellers sell GST-free products in an unchanged form. They do not convert them into taxable products.

SAM turnover

Your turnover helps to determine which simplified GST accounting method you can use. You must have a SAM turnover of \$2 million or less if you want to use the business norms, snapshot or stock purchases method.

If you know your turnover is clearly below the relevant threshold, you don't need to perform any calculations to determine your eligibility.

For the business norms, snapshot and stock purchases methods, the way the threshold is applied for these methods is slightly different from other GST thresholds, although the results should be similar.

To work out SAM turnover for these three methods, there are three points to remember:

- 1 The threshold amounts are GST-exclusive, which means you don't include the GST in your sales when you work out whether your sales are lower than the relevant threshold.
- 2 You apply the threshold test only to your trading sales, which means you include sales of trading stock and any other trading income but you ignore any sales of capital assets or other supplies you might make solely in ceasing or scaling down your business. Trading income includes things like receipts from services, such as video hire by a video store. Capital assets include things like land and buildings or plant and equipment.
- 3 You may apply the threshold test to either:
 - your trading sales for the last financial year
 - your projected trading sales for the current financial year. If you started your business during the financial year, you can apply the threshold to your projected trading sales for the financial year as if it were a 12-month period.

! Special rules apply to your turnover threshold if you are using the business norms method and your business is a pharmacy or a rural convenience store. Refer to the following publications for more information:

- *Business norms percentages No. 5 – rural convenience stores* (NAT 3268)
- *Business norms percentages No. 6 – pharmacies* (NAT 3269).

Same premises

You can use a simplified GST accounting method only if you make both GST-free and taxable food sales from the same location or premises. For example, a small sandwich bar selling sandwiches, fruit and drinks may have difficulty identifying and recording its GST-free sales, as all sales are made at the same time from one location. The sandwich bar would be eligible to use the simplified GST accounting method.

However, a beef cattle producer or farmer may make taxable sales of livestock and also sell GST-free vegetables from the farm gate. The sales of vegetables would be made at a different time and in a different location from the sales of livestock, therefore the farmer would be able to identify the GST-free sales at the point of sale. The farmer would not be eligible to use a simplified GST accounting method.

Supermarket

If your business sells a mixture of goods that are both GST-free and taxable in their unchanged form (for example, bread, milk, dairy products, cigarettes, confectionery and grocery lines), it would be defined as a supermarket.

This definition excludes any specialised food retailers, milk bars, petrol stations, fish and chip shops, and stores that convert a high proportion of their stock from GST-free goods into taxable ones.

Tax period

A tax period is the length of time you account for GST on your activity statement. You need to lodge an activity statement for each tax period.

The three main tax periods are:

- annual tax period (starting on 1 July and finishing on the following 30 June)
- quarterly tax periods (lasting three months, starting on 1 January, 1 April, 1 July and 1 October in each year)
- monthly tax periods, starting on the first day of each calendar month.

If you are not sure how long your tax periods are, refer to your previous activity statement.

RELATED PUBLICATIONS

BUSINESS ACTIVITY STATEMENT INSTRUCTIONS

- *GST – completing your activity statement – purchases snapshot method (NAT 15978)*
- *GST – completing your activity statement – business norms method (NAT 16013)*
- *GST – completing your activity statement – snapshot method (NAT 16014)*
- *GST – completing your activity statement – stock purchases method (NAT 16015)*
- *GST – completing your activity statement – sales percentage method (NAT 16016)*

BUSINESS NORMS FACT SHEETS

- *Business norms percentages No. 1 – hot bread shops (NAT 3186)*
- *Business norms percentages No. 2 – convenience stores that convert food (NAT 3187)*
- *Business norms percentages No. 3 – convenience stores that do not convert food (NAT 3188)*
- *Business norms percentages No. 4 – fresh fish retailers (NAT 3267)*
- *Business norms percentages No. 5 – rural convenience stores (NAT 3268)*
- *Business norms percentages No. 6 – pharmacies (NAT 3269)*
- *Business norms percentages No. 7 – cake shops (NAT 3270)*
- *Business norms percentages No. 8 – health food shops (NAT 3271)*
- *Business norms percentages No. 9 – continental delicatessens (NAT 3272)*

MORE INFORMATION

If you would like more information about simplified GST accounting methods for food retailers or about GST or other taxes:

- visit our website at **www.ato.gov.au**
- phone us on **13 28 66**
- write to us at **GPO Box 9935 in your capital city**.

If you do not speak English well and need help from the Tax Office, phone the Translating and Interpreting Service on **13 14 50**.

If you do not speak English well and need help from us, phone the Translating and Interpreting Service on **13 14 50**.

If you are deaf, or have a hearing or speech impairment, phone us through the National Relay Service (NRS) on the numbers listed below:

- TTY users, phone **13 36 77** and ask for the ATO number you need
- Speak and Listen (speech-to-speech relay) users, phone **1300 555 727** and ask for the ATO number you need
- internet relay users, connect to the NRS on **www.relayservice.com.au** and ask for the ATO number you need.

