



## Financial services and insurance

Detailed information about GST and the financial services and insurance industry.

### **GST and co-insurance arrangements**



Three possible ways to treat co-insurance for GST purposes.

### **SMSFs – GST and financial supplies**



GST registered SMSFs may be able to claim some of the GST incurred on costs related to financial supplies they make.

### **GST and financial supplies**



Find out what a financial supply is and how to calculate and report GST on your business activity statement (BAS).

### **GST and insurance**



Explains how GST applies if you are registered for GST and take out general insurance for business purposes.

### **GST and insurers – completing your activity statement**



QC 28610

## SMSFs – GST and financial supplies

GST registered SMSFs may be able to claim some of the GST incurred on costs related to financial supplies they make.

**Last updated** 28 October 2020

Self-managed super funds (SMSFs) that are registered for GST and make financial supplies (such as providing an interest in a regulated super fund or buying and selling shares) may be able to claim some or all of the GST credits on purchases related to their financial supplies.

For more information, see [Self-managed super funds](#).

### Registering for GST

You must register for GST if your GST turnover is \$75,000 or more. GST turnover does not include input-taxed sales, such as financial supplies and renting or selling residential premises. Most SMSFs don't have to register for GST because they mainly make input taxed sales.

However, you may choose to register for GST. In deciding whether to register you should consider:

- the increased time and cost of record keeping and reporting
- the fact that GST applies to taxable sales and you could claim GST credits for creditable purchases
- whether you can claim reduced GST credits on your reduced credit acquisitions.

For more information, see [Registering for GST](#).

### Financial supplies and GST credits

Generally you make a financial supply if you do either of the following:

- provide an interest in a regulated super fund

- buy and sell shares.

Financial supplies are input taxed. This means you:

- don't pay GST to us on financial supplies you make
- generally can't claim GST credits for the GST included in the price you pay for anything you purchase to make those supplies.

While you generally can't claim GST credits on purchases you use to make financial supplies, you may be able to claim them if you don't exceed the [financial acquisitions threshold](#).

If you exceed the financial acquisitions threshold you can still generally claim reduced GST credits if your purchase is a [reduced credit acquisition](#).

For more information, see *GSTR 2002/2 Goods and services tax: GST treatment of financial supplies and related supplies and acquisitions*.


## Financial acquisitions threshold

The financial acquisitions threshold allows entities that make a relatively small amount of financial supplies, as compared to their taxable supplies or GST-free supplies, to claim full input tax credits for those financial acquisitions.

If you do not exceed the financial acquisitions threshold, you will be entitled to full input tax credits for your purchases (acquisitions) relating to financial supplies.

There are two tests, based on the purchases you make over a 12-month period, to determine if you exceed the financial acquisitions threshold. You will exceed it if either test applies.

For more information, see:

- **Charging GST and claiming GST credits – Financial acquisitions threshold** for tests you can use to see if you exceed the financial acquisitions threshold
- *GSTR 2003/9 Goods and services tax: financial acquisitions threshold*
- **Financial acquisitions threshold**
- [Tax Laws Amendment \(2011 Measures No. 9\) Act 2012](#) 

## Reduced credit acquisitions

A reduced credit acquisition is a specified type of purchase for which a reduced GST credit is allowed, when you use the purchase to make financial supplies. For these purchases you can claim 75% of any GST included in the purchase price.

A lower rate of 55% applies to certain purchases made by recognised trust schemes, however a SMSF is not defined as a recognised trust scheme for GST purposes.

### Find out about

- [Common reduced credit acquisitions](#)
- [Things that are not reduced credit acquisitions](#)
- [GST credits you can claim](#)
- [Purchases partly used for making financial supplies](#)

For more information, see:

- *GSTR 2004/1 Goods and services tax: reduced credit acquisitions* – explains the items in detail
- Division 70 of Part 4-2 of A New Tax System (Goods and Services Tax) Regulations 2019 (GST law) for a complete list of items that are reduced credit acquisitions

## Common reduced credit acquisitions

### Investment portfolio management functions

In this context, the term 'investment portfolio' means the same as 'asset portfolio' and relates to particular classes or sectors within a particular class of investments you own.

*GSTR 2004/1 Goods and services tax: Reduced tax acquisitions* states that management involves more than just providing advice for you to act on. This means that obtaining financial advice by itself is not a reduced credit acquisition.

Investment management services include, but are not limited to:

- establishing a financial plan or investment strategy together with the ongoing implementation, execution or refinement of that plan or strategy

- ongoing implementation or execution of a given investment mandate
- providing ancillary reports or statements to clients.

## **Administrative functions**

The following administrative functions are reduced credit acquisitions if they relate to investment funds, including superannuation schemes:

- maintaining member, employer and trustee records and associated accounting
- processing applications, contributions, benefits and distributions
- ensuring compliance with industry regulatory requirements (excluding taxation and auditing services).

A regulatory requirement in this context refers to a Commonwealth, state or territory law. For example, any requirement in the SIS Act is a regulatory requirement for SMSFs.

Trustee records include minutes of trustee meetings, records of all decisions affecting the trust and similar documents.

Associated accounting refers only to those accounting tasks that are associated with maintaining member, employer or trustee records. It includes:

- posting entries to accounts to record individual member or employer contributions
- debiting charges to individual member accounts
- recording payments to members and investors of a managed investment scheme.

## **Things that are not reduced credit acquisitions**

Purchases not mentioned in the complete list in Division 70 of Part 4-2 of the GST Act are not reduced credit acquisitions.

Tax and auditing services are specifically excluded.

Tax services that are excluded are services such as:

- providing tax advice

- preparing and lodging a tax return, statement or specific requests for information we make
- representing you in connection with any audit activities we start.

Auditing service is a broad term that refers to any service that systematically looks at accounting records and financial statements to work out whether they give a true and fair view of the business carried on.

The following purchases are also generally not reduced credit acquisitions:

- accounting services that are not related to maintaining member, employer or trustee records
- providing advice and preparing financial statements (other than those you must provide under a regulatory requirement)
- legal services (including legal costs to set up your SMSF).

In very limited circumstances, where these purchases form an ancillary, incidental or integral element of an administrative function under funds management services, they may be treated as reduced credit acquisitions.

## **GST credits you can claim**

You can generally claim full GST credits for items you purchase to make a taxable sale if you satisfy all the requirements of the GST law.

### **Example: How to claim GST credits**

Hazel Super Fund is an SMSF and is registered for GST. The fund makes the following purchases (amounts include GST):

- repairs to residential property – \$7,000
- repairs to commercial property – \$14,300
- management of investment portfolio – \$1,100
- maintenance of member records and associated accounting (excluding auditing and tax services) – \$880
- brokerage on share sale – \$440.

Of these, the last three are financial acquisitions.

Total GST credits on financial acquisitions = \$220, that is,  
 $(\$1,100 + \$880 + \$440) \times (1 \div 11)$ .

Total GST credits that the fund could claim = \$1,520, that is  
 $(\$14,300 + \$1,100 + \$880 + \$440) \times (1 \div 11)$ .

The fund has exceeded the financial acquisitions threshold as its total GST credits on financial acquisitions (\$220) is more than 10% of the total GST credits the fund could claim (\$1,520).

Providing a residential property for lease is an input-taxed supply so Hazel Super Fund cannot claim GST credits for GST they paid on purchases that relate to making that supply.

Providing a commercial property is a taxable supply. Hazel Super Fund can claim GST credits for GST they paid on purchases that relate to making taxable sales. The GST credit is \$1,300  
 $(\$14,300 \times (1 \div 11))$ .

Regarding the last three purchases, fees paid to manage the fund's investment portfolio, brokerage costs and maintaining its member records and associated accounting are all purchases that relate to making financial supplies.

The fund can claim reduced GST credits for these purchases because they both:

- are listed in the GST law as reduced credit acquisitions
- relate to making financial supplies.

Therefore, the fund can claim reduced GST credits for:

- portfolio management \$75  $(\$1,100 \times (1 \div 11) \times 75\%)$
- records maintenance and associated accounting \$60  
 $(\$880 \times (1 \div 11) \times 75\%)$
- brokerage costs \$30  $(\$440 \times (1 \div 11) \times 75\%)$ .

Total reduced GST credit they can claim is \$165  
 $(\$75 + \$60 + \$30)$ .

Total GST credit they can claim on purchases they use to make taxable sales is \$1,300  $(\$14,300 \times (1 \div 11))$ .

Total credit they can claim as GST credits and reduced GST credits is \$1,465 (\$1,300 + \$165).

If you're not sure whether your purchases are reduced credit acquisitions, you may request a private ruling:

- Private ruling application form (not for tax professionals)
- Private ruling application form (tax professionals)

## **Purchases partly used for making financial supplies**

If you exceed the financial acquisitions threshold (for example, because you invest primarily in shares and managed funds, like many other SMSFs), there are two possibilities for purchases used partly for making financial supplies.

For the part of the purchase that relates to making financial supplies, you may be able to claim a reduced GST credit if it is a reduced credit acquisition.

For the part of your purchase that does not relate to making financial supplies, you may be able to claim a full GST credit, depending on how you use the purchase in your business.

If you do not exceed the financial acquisitions threshold, depending on how it is used you may be able to claim a full GST credit on the whole of your purchase regardless of whether or not it is a reduced credit acquisition.

### **Example: Purchases that relate to both taxable sales and input-taxed sales**

Koh-ee Super Fund (Koh-ee):

- is an SMSF
- is registered for GST
- exceeds the financial acquisitions threshold.

Koh-ee purchases investment portfolio management services of \$1,100 (inclusive of GST) in relation to its interests in:

- a domestic share portfolio

- commercial property.

For the part of the services that relates to making financial supplies, Koh-ee cannot claim full GST credits. However, it can claim a reduced GST credit as it is a reduced credit acquisition.

Based on previous years' data Koh-ee estimates the purchase is used 55% for making taxable sales and 45% for making financial supplies.

So, the extent to which Koh-ee makes the purchase for a creditable purpose is:

$$55\% + (45\% \times 75\%) = 88.75\%.$$

Koh-ee applies this percentage to the GST on the purchase to work out the GST credit it can claim.

The reduced credit acquisition includes GST of \$100, therefore Koh-ee can claim \$88.75 ( $100 \times 88.75\%$ ).

Koh-ee also purchases auditing and tax services for \$2,200. This purchase is not a reduced credit acquisition and relates to the whole of the business; it is not for any particular sale made by Koh-ee. Therefore Koh-ee can only claim credits for part of the purchase.

An acceptable method Koh-ee could use to work out a GST credit claim is to consider how other inputs have been used over previous years.

For example, Koh-ee uses investment portfolio management services of 55% for taxable sales and 45% for input taxed sales. Using this method, Koh-ee works out the credits it can claim as follows:

- GST on purchase is  $\$2,200 \times (1 \div 11) = \$200$
- GST credit claimed is  $\$200 \times 55\% = \$110$ .

For more information, see *GSTR 2006/3 Goods and services tax: determining the extent of creditable purpose for providers of financial supplies*.

## How to treat *in specie* contributions and distributions

*In specie* contributions and distributions are contributions and distributions of things other than money.

Under super law, *in specie* contributions that are allowed to be transferred into a fund include listed securities and business real property (including commercial property) at market value.

Generally, an *in specie* contribution of commercial property or shares a member makes to you has no GST consequences. However, this depends on your specific circumstances.

If you're a discretionary trust, the GST consequences of an *in specie* distribution you make to a member will also depend on the circumstances.

If you're not sure about the GST consequences of your *in specie* contributions or distributions, you can request a private ruling:

- Private ruling application form (not for tax professionals)
- Private ruling application form (tax professionals)

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## GST and insurance

Explains how GST applies if you are registered for GST and take out general insurance for business purposes.

**Last updated** 22 May 2019

If you're registered for GST, you can claim a full or partial credit for the GST included in an insurance policy premium covering a business asset.

Tell your insurer you're registered for GST as this will affect your GST liability on any settlements.

## Reporting GST in your activity statement

If you're eligible for a GST credit on an insurance policy you can claim it through your activity statement. You can only claim a GST credit for the part of the insurance relating to your business.

Generally, GST is charged on insurance policies other than:

- life insurance (these are input taxed)
- health insurance policies (these are GST-free).

You can't claim a GST credit for any part of your insurance that relates to:

- input-taxed sales you make
- things you use for private or domestic purposes.

In most circumstances you must hold a valid tax invoice to claim back any GST you've paid.

**Find out about:**

- [Insurance premiums](#)
- [Insurance settlements](#)
- [Payment of an excess](#)

**See also:**

- Claiming GST credits
- Lodging your BAS or GST annual return
- Input-taxed sales
- *GSTR 2006/10 Goods and services tax: insurance settlements and entitlement to input tax credits*

## Insurance premiums

If GST is included in an insurance premium, include the price of the insurance premium less the amount of stamp duty at **G11** (non-capital purchases).

If you use the:

- accounts method, report one-eleventh of the amount of the premium (less any stamp duty) at **1B** (GST on purchases)

- calculation worksheet method, use the worksheet to work out how much to report at **1B** (GST on purchases).

## **Compulsory motor vehicle third party insurance**

You can't claim a GST credit on compulsory third party motor vehicle insurance premiums where the cover started before 1 July 2003.

## **Insurance settlements**

Report at **G1** (total sales) the amount of the settlement you must pay GST on.

This rule does not apply if you receive a settlement amount under a compulsory third-party insurance scheme.

If you are using the:

- accounts method, report the amount of GST you must pay on the settlement amount at **1A** (GST on sales)
- calculation worksheet method, use the worksheet to calculate how much GST is to be reported at **1A** (GST on sales).

Do not report amounts for any of the following:

- money, digital currency or goods you receive from your insurer to settle your claim under an insurance policy – provided you told your insurer the amount of GST you can claim on the policy premium, before or when you made a claim
- settlement of your claim against another party where you are not the insured party and the insurer pays the settlement amount directly to you
- settlement of your claim against another party, where the insured receives the amount as settlement from their insurer and then provides it to you.

## **Payment of an excess**

You can't claim GST credits on any excess that you pay to your insurer.

If you pay an excess to someone other than your insurer you can claim a credit on any GST paid if:

- the party you pay is not acting as an agent for your insurer

- you receive a tax invoice.

Report the amount of the excess at **G11** (non-capital purchases) or at **G10** (capital purchases).

If you're using the:

- accounts method, report any GST credits you can claim at **1B** (GST on purchases)
- calculation worksheet method, use the worksheet to calculate the amount to report at **1B** (GST on purchases).

**Find out about:**

- [Settlements](#)

## Settlements

The settlement amount paid on an insurance claim is based on the terms of your contract with the insurer, not on GST legislation.

However, in general, the insurer will only compensate you for the actual loss incurred. For example, if you are entitled to claim 100% of the GST credits, the insurer will reduce that GST credit amount from the payment made to you on a settlement.

### Example: GST credits and insurance settlements

Repairs to Marilyn's business premises cost \$5,500, including GST. Marilyn is registered for GST. When she pays for the repairs, she is entitled to claim 100% of the GST credits. She claims a GST credit of \$500, which is 1/11th of the payment she made to the repairer. The insurer takes that into account and pays her \$5,000.

The insurer may provide Marilyn a settlement statement showing the net settlement as \$5,000 (the cost of repairs \$5,500 less the GST credit amount of \$500 Marilyn is entitled to claim).

## Notifying an insurer of your GST registration

You must notify your insurer of your entitlement to GST credits on your insurance premium when, or before, any claim is made. You will not have a GST liability on a settlement from an insurance claim if you have done this.

If you have not told your insurer your GST status and the proportion of GST credits relating to your business that you can claim, you may have to pay GST when your claim is settled.

You will have to pay GST on any settlement amount you receive if you have understated, to your insurer, the GST credit you can claim on the premium.

### **Paying GST on part of the settlement**

If you don't tell your insurer you can claim the GST credit, you must:

- work out the percentage of GST you could claim on the premium
- pay GST on that percentage of the settlement amount.

If you understate the GST you can claim on the premium, you must:

- work out the percentage of GST you told your insurer you could claim for the purchase
- work out the percentage of GST you can actually claim
- work out the difference between these percentages
- pay GST on that percentage of the settlement amount.

You can't claim any GST credit if you make a payment of money, digital currency or goods to a third party in settlement of their claim against you where that payment is covered by the settlement of a claim you have made against your insurer.

### **Car insurance settlements**

Claiming GST credits in car insurance settlements depends on who the insurer pays and whether the insurer has a contract with the repairer to repair cars it has provided policies for.

Generally, you cannot claim a GST credit for payments your insurer makes to a service provider if the insurer:

- has a contract with a supplier to provide a service to you, and
- pays the settlement directly to the service provider.

You can, however, claim a GST credit for payments your insurer makes to the service provider on your behalf.

The following examples illustrate four situations:

- [Example 1](#): Betty: insurer has no contract with the repairer
- [Example 2](#): Sarah: insurer has no contractual arrangement with the repairer, but pays the repair account directly on behalf of the driver
- [Example 3](#): Tom: insurer has a contractual arrangement with the repairer to repair cars the insurer's policies cover (a so-called 'preferred supplier')
- [Example 4](#): Bill: the insured person is not registered for GST.

### **Example 1: Betty**

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Betty is registered for GST and holds a car insurance policy with ABC Insurance. She tells ABC she can claim a 100% GST credit for the GST included in the policy price.

Betty has a car accident and ABC insurance agrees the damage to her car will cost \$5,500 (including GST) to fix. Betty pays repair costs of \$5,500.

ABC Insurance pays Betty \$5,000 in full settlement of her claim. Betty claims a GST credit of \$500 ( $\$5,500 \times 1/11$ ) when she lodges her next activity statement.

Betty's out-of-pocket expense is zero (that is, \$5,000 from the insurer plus \$500 GST credit).

Because Betty told ABC she could claim a GST credit for her insurance premium, she does not have a GST liability on the payment received from ABC in settlement of her claim.

### **Example 2: Sarah**

Sarah holds an insurance policy with XYZ Insurance. She uses her car 100% for business purposes and can claim 100% GST credits on the premium. When she damages her car, XYZ Insurance:

- agrees the damage will cost \$5,500 (including GST) to fix
- instructs a repairer to repair the vehicle.

XYZ has no contract with the repairer.

Sarah asks XYZ Insurance to pay the repairer directly the amount less GST (\$5,000). Sarah pays the remaining \$500.

As XYZ Insurance paid the repairer on behalf of Sarah when she asked them to (as a simplified payment arrangement), Sarah is considered to have paid \$5,500 for the repairs. Sarah can claim a GST credit of \$500 (1/11th of \$5,500).

### **Example 3: Tom**

Tom holds an insurance policy with Sure Insurance. He uses his car for business purposes and can claim 100% GST credits on the premium. When he damages the car, Sure Insurance:

- agrees that the car can be repaired at a cost of \$5,500 (including GST)
- pays a repairer to make the repairs.

Sure Insurance has a contract with the repairer to repair vehicles for Sure Insurance policy holders.

Sure Insurance pays the repairer the full \$5,500 and claims a GST credit of \$500. Tom does not make any payment to the repairer and cannot claim a GST credit.

### **Example 4: Bill**

Bill has a car accident and repairs cost \$5,500. Bill is not registered for GST, so he cannot claim a GST credit for GST included in the cost of the repairs.

Bill makes a claim under his insurance policy. He is covered for the full, GST-inclusive cost of the repairs and the insurer pays Bill \$5,500.

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