



Agent, consignment and progressive transactions

Detailed information about GST and agent, consignment and progressive transactions.

GST – Agent, consignment and progressive transactions



GST registered businesses must account for the GST on sales made through an agent, on consignment or lease arrangements.

GST – Hire purchase and leasing



How GST applies to hire purchase and leasing agreements.

QC 28601

GST – Hire purchase and leasing

How GST applies to hire purchase and leasing agreements.

Last updated 6 April 2017

Businesses enter into hire purchase or leasing agreements to pay for and use goods over a period of time rather than paying the full cost up front.

Find out about the GST treatment of:

- [Hire purchase](#)

- [Leasing](#)

Hire purchase

Under a hire purchase agreement, you:

- purchase goods through instalment payments
- use the goods while paying for them
- do not own the goods until you have paid the final instalment.

Where the supply of goods to you under a hire purchase agreement is a taxable supply, the price you pay for the goods includes GST. If you use the goods in your business, you can generally claim a GST credit.

You treat a hire purchase agreement as a stand-alone sale or purchase in a tax period – that is, the same rules apply as they would for any sale and purchase of goods under an ordinary sale agreement. A hire purchase agreement is not treated as a sale or purchase made on a progressive or periodic basis.

Paying GST on hire purchases

If you enter into a hire purchase agreement on or after 1 July 2012, all components of the supply made under the agreement are taxable, whether or not the credit component is separately disclosed. Any associated fees and charges, such as late payment fees incurred under the terms of the hire purchase arrangement, are also subject to GST.

If you enter a hire purchase agreement before 1 July 2012, and the supplier:

- separately identifies and discloses the interest charge to you, you don't have to pay GST on the interest as it is a financial supply
- doesn't separately identify and disclose the interest charge to you, you must pay GST on the total amount payable under the contract.

The interest charge is 'disclosed' to you if the supplier tells you any of the following in the hire purchase agreement:

- the dollar amount of the credit charge
- the interest rate

- the formula or formulas used to work out the credit charge amount
- any other information sufficient to work out the credit charge amount.

A hire purchase agreement entered into before 1 July 2012 continues to be treated in this way even if there's a subsequent change to the agreement, provided the change doesn't result in a new agreement. That is, the supply of a separately disclosed credit component will continue to be an input taxed financial supply.

Claiming GST credits on hire purchases

If you account for GST on a non-cash (accruals) basis

You can claim the full GST credit on your hire purchase agreement in the tax period when either:

- you make your first payment
- a tax invoice is issued to you, provided you haven't already made your first payment.

For agreements entered into before 1 July 2012, you claim a GST credit only for the principal component of the agreement, not the credit component.

If you account for GST on a cash basis

For hire purchase agreements entered into on or after 1 July 2012, you can claim input tax credits up front instead of waiting until each instalment is paid, in the same way as you would if you accounted for GST on a non-cash basis. As all components of a hire purchase agreement entered into on or after 1 July 2012 are subject to GST, you can claim one-eleventh of all components, including the credit component and any associated fees and charges that have been subject to GST under the agreement.

For hire purchase agreements entered into before 1 July 2012 you can claim one-eleventh of the principal component of each instalment in the period you pay it. If the supplier provides regular accounts or statements that show the principal and interest components for each instalment, you must use that information to work out GST credits in the relevant tax period. If you don't know the principal component for each instalment, you need to take reasonable steps to find out from the supplier.

Example: hire purchase agreement entered into before 1 July 2012

Albert's Abattoir (Albert) is registered for GST and reports GST quarterly.

On 10 June 2012, Albert buys a freezer from the Friendly Freezer Store (Friendly) for \$33,000 through a hire purchase agreement. Under the terms of the agreement, which separately discloses the interest charge, Albert will repay \$670 per month for five years. The total payment will be \$40,200 (\$33,000 plus \$7,200 interest).

The freezer is delivered on 7 April and Friendly notifies Albert that the principal component of the first instalment is \$550. Albert claims a GST credit for GST included in the price of the freezer. However, Friendly does not charge GST on the interest component as it is a financial supply, so Albert can't claim a GST credit on this component.

If Albert accounts for GST on a non-cash basis he can claim a GST credit for the tax period in which he enters into the agreement. That is, for the tax period ending 30 June Albert would claim a GST credit of \$3,000 (one-eleventh of \$33,000).

If Albert accounts for GST on a cash basis he can claim a GST credit of only \$50 (one-eleventh of \$550) for the first instalment in the tax period he actually pays the instalment.

Example: hire purchase agreement entered into on or after 1 July 2012

Continuing the example above, Albert decides to buy a second freezer on hire purchase from Friendly, on the same terms as above, on 20 July 2012.

Because the agreement is entered into after 1 July 2012, both the principal and interest component of the supply are subject to GST.

The freezer is delivered on 7 August 2012 and Friendly notifies Albert that the principal component of the first instalment is \$550. This means the credit component of the first instalment is \$120.

Albert can claim a GST credit for the GST included in both the price of the freezer and the interest charged. As the agreement was after 1 July 2012, the interest is not a financial supply (even though it is separately disclosed).

Whether Albert accounts for GST on a cash or non-cash basis, he can claim a GST credit of \$3,654.54 (one-eleventh of \$40,200) for the tax period ending 30 September 2012, as this is the period in which he pays the first instalment.

See also:

- [Claiming GST credits](#)
- Special rules apply if you use hire purchased goods to make input taxed supplies, including financial supplies: [Financial services – questions and answers](#).
- [A new Tax System \(Goods and Services Tax\) Amendment Regulation 2012 \(No. 1\)](#) [↗](#)
- [Tax laws amendment \(2011 Measures No. 9\) Act 2013](#) [↗](#)

Leasing

Leasing agreements commonly apply to goods such as vehicles, office equipment and machinery.

Under a lease agreement, the person who:

- grants the lease (lessor) is the owner of the goods
- leases the goods under the lease (lessee) uses them for a specified time and, in return, makes a series of payments that can be fixed or flexible.

Paying GST on lease agreements

Generally, lease agreements are subject to GST.

On each activity statement you report payments you made in that tax period for leased goods. That is, you treat each payment as though you are making a separate purchase each tax period, even though each payment is for the same goods under the same lease agreement.

Claiming GST credits on lease agreements

You can claim GST credits for any GST included in the lease charges.

If you account for GST on a non-cash (accruals) basis, you're entitled to a GST credit of one-eleventh of the lease instalments for each tax period when you either:

- make any part of the lease payment due in that period
- receive an invoice from the supplier.

If you account for GST on a cash basis, you claim a GST credit of one-eleventh of the lease instalment amounts paid in each tax period.

If you take ownership of leased goods

At the end of the lease, you may have to pay GST on residual payments under lease agreements. These are payments you make to take ownership of the goods, which is treated as a separate transaction to the lease agreement.

If you purchase the goods at the end of the lease agreement, you may be eligible to claim a GST credit for any GST you paid in the price of the purchase.

Example: claiming GST credits on lease agreements

Melinda's Speedy Pastry (Melinda) decides to lease a cash register and enters an agreement with QED Finance.

Melinda accounts for GST on a non-cash basis. QED Finance leases the register to Melinda for \$220 a month over a period of three years.

As Melinda obtained the cash register under a lease agreement, each lease payment is treated as though she is making a separate purchase for the register each tax period, even though

each payment is for the same register under the same lease agreement.

The GST credit is one-eleventh of the monthly lease payments (\$220), which is \$20.

Melinda can claim this credit, provided she pays at least part of the \$220 in that period. If she does not pay any part of the \$220 in the period, she may claim the \$20 credit only if QED Finance issues her with a monthly invoice, based on the terms of the lease agreement.

If Melinda accounted for GST on a cash basis, the GST credit would be one-eleventh of the lease payments she actually made in each tax period.

If Melinda purchases the register from QED Finance at the end of the lease agreement to continue using it for the business, she can claim GST credits on the amount of GST included in the purchase price of the register.

See also:

- [Claiming GST credits](#)
- Special rules apply if you lease property to make input taxed supplies, including financial supplies: [Financial services – questions and answers](#)
- [GSTR 2000/29](#) Goods and services tax: attributing GST payable, input tax credits and adjustments and particular attribution rules made under section 29-25 (paragraphs 190 to 217)
- [GSTR 2000/35](#) Goods and services tax: Division 156- supplies and acquisitions made on a progressive or periodic basis (paragraphs 190 to 217)

QC 16282

Our commitment to you

We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet

your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

Some of the information on this website applies to a specific financial year. This is clearly marked. Make sure you have the information for the right year before making decisions based on that information.

If you feel that our information does not fully cover your circumstances, or you are unsure how it applies to you, contact us or seek professional advice.

Copyright notice

© Australian Taxation Office for the Commonwealth of Australia

You are free to copy, adapt, modify, transmit and distribute this material as you wish (but not in any way that suggests the ATO or the Commonwealth endorses you or any of your services or products).