GST and financial supplies

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

Last updated 13 July 2023

Find out what apportionment is and how this needs to be applied.

GST record keeping for financial suppliers

GST records that need to be kept for financial suppliers.

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When do I need to report GST for a financial supply

Find out when you need to report financial supplies and see financial supply examples.

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If you make financial supplies, you need to report information about those supplies on your BAS, including the amounts you:

- earned from the sales of financial supplies
- paid, or were liable to pay, from purchases you used to make financial supplies.

A supply you make is a financial supply only if it is listed in the GST regulations. Examples of financial supplies include:

- lending or borrowing money
- providing your customers with goods on credit for a fee
- creating, maintaining and closing your customer's bank account
- life insurance
- dealing in debt, equity, unit trusts, partnership interests or futures contracts.

You can make financial supplies even if you are not a financial institution. For example, even though a department store is not a financial institution, it can provide customers with credit and charge interest on that credit. This is an input-taxed financial supply.

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Choosing an accounting method

How to choose an accounting method to complete the relevant GST items on your BAS.

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How to choose a method

To complete the relevant **GST items on your BAS**, you need to **choose an accounting method**. You may use either:

- the accounts method
- the calculation worksheet method.

The accounting basis you use will determine:

- the amounts you report on your BAS
- how you report the amounts you earned from making financial supplies.

You may account on a cash basis or a non-cash basis.

Accounts method

If you use the accounts method, use the information in your accounts to report amounts at:

- **1A** (GST on sales)
- **1B** (GST on purchases).

You must also complete:

- **G1** (total sales)
- **G10** (capital purchases)
- **G11** (non-capital purchases).

If you use the accounts method, do not report:

- financial supplies at **G4** (input-taxed supplies)
- financial acquisitions at **G13** (purchases for making input taxed sales).

Example: accounts method

Angela purchases an item for $55,000 including GST, partly to make:

- financial supplies (50%)
- taxable supplies (50%).

The purchase is a reduced credit acquisition. Reduced credit acquisitions are certain types of purchases you can claim a reduced GST credit for when you use them to make financial supplies (see Reduced credit acquisitions).

To work out the GST credit she can claim, Angela works out:

- the GST she paid in the purchase price of the item; that is, one-eleventh of the purchase price ($55,000 ÷ 11 = $5,000)
- 50% of the GST she paid in the purchase price (the percentage of the GST that relates to making financial supplies) ($5,000 × 50% = $2,500)
- 75% of the GST that relates to making financial supplies (the percentage that she can claim as a GST credit for a reduced credit acquisition) ($2,500 × 75% = $1,875).

Angela can claim:

- $1,875 in reduced credit for the GST she paid that relates to making financial supplies
- a full GST credit for the other 50% of the GST she paid in the purchase price of the item ($2,500).

Angela can claim a total GST credit of $4,375 ($1,875 + $2,500).

For more detailed information, see:

- GSTR 2006/3 *Goods and services tax: determining the extent of creditable purpose for providers of financial supplies*
- GSTR 2004/1 *Goods and services tax: reduced credit acquisitions* – includes a complete list of items that are reduced credit acquisitions.

Calculation worksheet method

The calculation worksheet works out the amount you include in your BAS at:

- **1A** (GST on sales)
- **1B** (GST on purchases).

You must complete each part of the calculation worksheet that relates to your sales and purchases. In particular, when you make input-taxed financial supplies, you must complete **G4** (input-taxed sales) and **G13** (purchases for making input-taxed sales) on the worksheet.

Sales

Report the amount you earned from your financial supplies in the reporting period at **G4** (also include this at **G1**). On the calculation worksheet, subtract **G4** from **G1** to make sure GST is not included on your financial supplies when you work out GST payable at **1A**.

Purchases

Complete **G10** (capital purchases) and **G11** (non-capital purchases) on the calculation worksheet, showing all your purchases, including any purchases you used, or plan to use, to make financial supplies in the reporting period. The amounts you report at **G10** and **G11** must include GST.

If none of the exceptions to claiming GST credits or reduced GST credits for purchases apply to you, you must complete **G13** (purchases for making input-taxed sales) on the calculation worksheet. Include the total amount of purchases that you used to make financial supplies at **G13**. This makes sure you do not claim GST credits on these purchases.

If one of the first three exceptions to claiming GST credits or reduced GST credits for purchases applies to you, do not report anything at

G13 for purchases that you used to make those financial supplies. This will make sure you correctly report any GST credits you can claim at **1B** (GST on purchases).

If you make purchases that are reduced credit acquisitions, report at **G13** only 25% of the purchase price, if you:

- can claim reduced GST credits for those purchases
- use, or plan to use, the purchases to make financial supplies.

This makes sure that when you subtract **G13** from total purchases at **G12** on the calculation worksheet, you include the correct amount of GST credit at **1B**.

If you make a reduced credit acquisition that does not solely relate to making financial supplies, report at **G13** only 25% of the part of the purchase's price that relates to making financial supplies.

Example: calculation worksheet method

Angela uses the calculation worksheet method to complete her BAS.

Angela purchases an item for $55,000 including GST, partly to make:

- financial supplies (50%)
- taxable supplies (50%).

Angela includes at:

- **G11**, the purchase price of $55,000
- **G13**, the purchase price ($55,000) × 25% (because this is a reduced credit acquisition) × 50% (the part of the purchase that relates to making financial supplies) = $6,875.

After completing the calculation sheet, Angela works out that the amount she must include at **1B** is ($55,000 − $6,875) ÷ 11 (GST) = **$4,375**.

Angela can claim a total GST credit of **$4,375**.

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Reporting financial supplies on your BAS

How to report financial supplies on your BAS.

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Whether you use the accounts method or calculations worksheet method to complete your BAS, you must complete the following items:

- G1 (total sales)
- G10 (capital purchases) and/or G11 (non-capital purchases)
- 1A (GST on sales)
- 1B (GST on purchases).

The nature of financial supplies means that there are certain difficulties when completing a BAS.

We expect labels **1A** and **1B** to be accurate, but a number of different methods are available for completing labels **G1**, **G2**, **G3**, **G10** and **G11**.

G1 (total sales)

Generally, you should report amounts that you earn from making financial supplies including any interest, related fees and margins. Fees and commissions should normally be reported as gross income and income derived on an interest or margin basis should be reported on a net basis.

As the margins or gains reported at **G1** are net of the purchase and sale amounts, the purchase amount is not required to be reported again at **G11**.

The basis of reporting figures at **G1** should be consistent and 'fair and reasonable'.

Examples of items to report at **G1** include:

- interest earned on a bank account or term deposit (but not repayments of the principal)
- fee income
- commission income
- amounts which are earned from the issue and repurchase of government bonds
- the margins derived from the sale of equity instruments including:
  - shares
  - units in unit trusts
  - futures
  - options
  - warrants
  - forwards
- premiums received for life insurance policies
- interest earned under a hire purchase agreement.

Examples of items **not** to report at **G1** are:

- dividend income received from share investments
- money invested into or withdrawn out of bank accounts or term deposits
- purchase of bank accepted bills
- principal repayment made to the holder of a government bond at maturity
- principal repayment made to the depositor in respect of a term deposit at maturity
- principal repayment made to the holder of a bank accepted bill at maturity
- interest paid to the holder of a government bond
- interest received by the holder of a bank accepted bill

- consideration received for the issue of units.
- distributions received from unit trust investment or partnership investments.

These items are not reported at **G1** because they are not payments or consideration for making financial supplies

Hire purchase agreements

The way to report on interest earned under a hire purchase agreement differs depending on whether the agreement was entered into before or after 1 July 2012:

Before 1 July 2012

Include the interest earned under a hire purchase agreement entered into before 1 July 2012 in relation to goods if the credit for the goods is provided for a separate charge and the charge is disclosed to the recipient of the goods. Otherwise, include the full amount.

On or after 1 July 2012

Interest earned under a hire purchase agreement entered into on or after 1 July 2012 is consideration for a taxable supply (as opposed to an input-taxed financial supply) and should be included at **G1**.

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

G10 (Capital purchases)

Include capital purchases you used to make financial supplies in **G10**. Report the total amount you paid, or were liable to pay, on all purchases relevant to the reporting period.

G11 (Non-capital purchases)

Non-capital purchases may include trading stock and normal running expenses, such as stationary, brokerage fees and repairs. Report the total amount you paid, or were liable to pay, on all purchases relevant to the reporting period.

G11 also includes reduced credit acquisitions at the full value of those acquisitions.

As with **G1**, the basis for reporting figures at **G11** should be consistent and 'fair and reasonable'.

Therefore, if you have reported the proceeds of a disposal of equity instruments at **G1** (that is, the full benefit you have obtained), then you should report the purchase of equity instruments at **G11**. However, if you have only reported the margin at G1 (that is, the earnings net of the purchase and sale amounts), then you should not report the purchase of the particular equity instrument at **G11**.

1A (GST on sales)

At **1A**, do **not** include any GST amounts relating to financial supplies you made (a financial supply is input-taxed so you do not report a GST amount).

1B (GST on purchases)

At **1B**, do **not** include any GST on financial acquisitions you have made unless one of the exceptions applies to you, because you generally cannot claim GST credits on purchases you use for making financial supplies.

A financial acquisition is an acquisition that relates to the making of a financial supply (other than a borrowing).

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Four exceptions for claiming a GST credit

When exceptions to claiming a GST credit apply.

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About the exceptions

Financial supplies are input taxed. This means you:

- do not pay GST to us on financial supplies you make
- cannot generally claim GST credits for the GST included in the price you paid for anything you purchased to make those supplies.

However, there are four exceptions where you can claim the GST credit you paid on a purchase you use to make your financial supply:

- you use the purchase to make a financial supply through a business or a part of a business that you carry on outside Australia
- you do not exceed the financial acquisitions threshold
- your purchase relates to a borrowing you make, if certain conditions are met
- your purchase is a reduced credit acquisition that you use to make a financial supply.

Where your purchases relate to making financial supplies as well as taxable and GST-free supplies, they will need to be apportioned.

Businesses carried on outside Australia

You can claim GST credits on purchases that you use to make financial supplies through a business that you carry on outside Australia.

Whether you are making financial supplies through a business that you carry on outside Australia depends on your particular circumstances. If you believe you are in this situation, we recommend you ask us for advice before claiming any GST credits.

Financial acquisitions threshold

There are 2 tests that apply to see if you exceed the financial acquisitions threshold. You may exceed the threshold under either test. Both tests are based on financial acquisitions you make. A **financial acquisition** is an acquisition that relates to the making of a financial supply (other than a borrowing).

Both tests take into account all the financial acquisitions you make over a 12-month period:

- current financial acquisitions mean financial acquisitions you make over the whole of the current month plus the previous 11 months

- future financial acquisitions mean financial acquisitions you make over the whole of the current month plus the following 11 months (you must estimate this amount).

To test whether you exceed the financial acquisitions threshold in a particular month, you must assume that the financial acquisitions you have made, or are likely to make, are not used:

- to make input-taxed sales
- partly for a private or domestic purpose.

You exceed the financial acquisitions threshold for a particular month if the GST credits you could claim for current or future financial acquisitions are more than either of the following:

- $50,000 (before 1 July 2012) or $150,000 (on and after 1 July 2012) in the relevant 12-month period
- 10% of the total amount of GST credits you could claim for all your purchases (including financial acquisitions) during the relevant 12-month period.

For more detailed information, see:

- GSTR 2003/9 *Goods and services tax: financial acquisitions threshold*
- Financial services – questions and answers
- GST terms: financial acquisition

Borrowing

Borrowing can be secured or unsecured and includes raising funds by issuing a:

- bond
- debenture
- discounted security
- other document evidencing indebtedness.

You may be able to claim GST credits on purchases you make that relate to you making a financial supply (consisting of a borrowing), to the extent that the borrowing relates to you making supplies that are not input taxed.

From 1 July 2012 this concession does not apply if you are an Australian authorised deposit taking institution, such as a bank, building society or credit union, and the purchase relates to you making a financial supply consisting of a borrowing made through a deposit account.

If you are the lender, purchases that relate to loans you make are financial acquisitions.

Reduced credit acquisitions

Reduced credit acquisitions are certain special types of purchases listed in the GST regulations. You can claim a partial GST credit on these items if you use them to make financial supplies and you exceed the financial acquisitions threshold.

Generally, you can claim 75% of GST included in the purchase price of a reduced credit acquisition.

The list of reduced credit acquisitions are broadly categorised under the following headings:

- Transaction banking and cash management services, such as managing accounts and processing services
- Payment and fund transfers services
- Securities transaction services and unit registry services
- Loan services
- Credit union services
- Debt collection services
- Asset-based finance services
- Trade finance services
- Capital markets and financial instruments services, such as derivatives.
- Funds management services
- Insurance services, such as brokerage.

- Trustee and custodial services
- Supplies to recognised trust schemes
- Monitoring services.

There is an exception to this general rule which relates to supplies purchased on and after 1 July 2012 by a recognised trust scheme. A recognised trust scheme is defined in the GST regulations to include certain managed investment schemes, superannuation funds (though not self-managed superannuation funds) and approved deposit funds.

On and after 1 July 2012, recognised trust schemes may claim a reduced GST credit of only 55% on their reduced credit acquisitions, other than those specified in the GST regulations. For those specified in the GST regulations their entitlement will remain at 75%.

There are also other acquisitions that attract partial input-tax credits which are only relevant for certain offshore supplies between closely-related entities.

For more detailed information, see **GSTR 2004/1** *Goods and services tax: reduced credit acquisitions*.

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Apportionment

Find out what apportionment is and how this needs to be applied.

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Where a business makes a mixture of input taxed and other supplies, which is commonplace in the financial services sector, it will need to determine the extent to which acquisitions (and therefore the associated GST incurred) relate to the making of supplies that are input taxed. This is more commonly referred to as apportionment.

This will normally mean that you need to design and apply a methodology to identify, capture and report GST on acquisitions that do not relate to input taxed supplies. This is because this GST can be claimed on the BAS as an input tax credit, subject to all the other normal rules for claiming GST credits.

These general rules about input tax are supplemented by four exceptions where you can claim a GST credit for a purchase you use to make your financial supply.

For more detailed information on apportionment, see:

- GSTR 2006/3 *Goods and services tax: determining the extent of creditable purpose for providers of financial supplies*
- GSTR 2002/2 *Goods and services tax: GST treatment of financial supplies and related supplies and acquisitions*
- GSTR 2008/1 *Goods and services tax: when do you acquire anything or import goods solely or partly for a creditable purpose?*
- GSTR 2006/4 *Goods and services tax: determining the extent of creditable purpose for claiming input tax credits and for making adjustments for changes in extent of creditable purpose*
- GSTR 2003/9 *Goods and services tax: financial acquisitions threshold*
- GSTR 2004/1 *Goods and services tax: reduced credit acquisitions*.

Fair and reasonable principles of apportionment

Identify and evaluate methods that are fair and reasonable in your circumstances.

Decision-making methodology

Outlines decision-making methodology including determining GST credits, factors to consider and different methods.

Examples of decision-making methodology

See examples of decision-making methodology to show how you

Reviewing and documenting decisions

It is important that the decision-making process you follow should include a review mechanism.

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Fair and reasonable principles of apportionment

Identify and evaluate methods that are fair and reasonable in your circumstances.

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The methodology you use to determine the amounts of GST credits that can be claimed must be one that is fair and reasonable. It must reflect the use (or intended use) of acquisitions (resources acquired) in making input taxed supplies and other supplies.

Many businesses find it difficult to accurately determine the actual usage of acquisitions and therefore need a methodology to measure it. This information will help you identify and evaluate methods that are fair and reasonable in your circumstances, as well as document your decisions and reasoning on your choice of method.

There may be more than one method that is fair and reasonable and that suits your business. The GST law does not prescribe any particular method.

We accept that you would in general seek to:

- claim the maximum amount of GST credits that are fairly and reasonably claimable
- reasonably minimise the costs of calculating the amounts claimable.

This information will provide you with some general guidelines on how to identify and choose a methodology that is fair and reasonable.

We encourage you to adequately document the reasons for making choices that meet the principle of being fair and reasonable and keep sufficient information to support your decisions. Creating and maintaining these documents will contribute to your own internal risk management and governance processes and also assist you by reducing the risk of a protracted enquiry and possible dispute with us.

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Decision-making methodology

Outlines decision-making methodology including determining GST credits, factors to consider and different methods.

Last updated 13 July 2023

Determining GST credits

To determine the amount of GST credits that can be claimed, you should:

- identify, capture and process GST on acquisitions that wholly relate to supplies that are not input taxed
- determine and apply any concessions for GST on acquisitions related to input taxed supplies (for example, reduced input tax credits)
- apportion GST on acquisitions partly related to the making of input taxed supplies.

This information is primarily concerned with GST on acquisitions that are partly related to making input taxed supplies.

The method for apportioning GST on acquisitions partly related to input taxed supplies requires you to analyse a number of factors, where no single factor is likely to be determinative. It is important that:

- you consider all factors to form a balanced view
- you document each factor

- the reasons for your conclusion record the influence and weighting of each factor.

This information will help you to identify, record and analyse the possible methods available and to document your reasoning for accepting or rejecting methods under the test for fairness and reasonableness.

In addition to the relevant rulings, this will help you to achieve an outcome:

- that will be fair and reasonable
- which recognises and explains the relationship between acquisitions and their intended or actual use.

Factors to consider

In choosing your methodology, you should:

- keep in mind that the purpose and outcome of the methodology is to measure the relationship between acquisitions and their intended or actual use
- be satisfied that the basis of apportionment makes sense in the context of your enterprise
- ensure there is a documented description of the business that demonstrates the intended or actual use of the acquisitions in a practical business context
- ensure you consider all relevant information and document it
- ensure that you do not consider irrelevant information
- consider alternative methods and assess them to determine those which are fair and reasonable and those that are not
- be conscious of the compliance cost of any method, having regard to the context (size, structure and nature) of your business
- be responsive to any changing circumstances in your business that may impact on whether your chosen methodology continues to be fair and reasonable.

Assessing whether the method is fair and reasonable

In choosing a fair and reasonable method, our experience in reviewing methodologies is helpful. We consider that these factors are important in assessing whether a chosen method is fair and reasonable by ascertaining whether:

- the information is accurate and complete
- the information is likely to change in the near future
- you can fully explain your business activities, consumption of acquisitions and resources, and you have documented this
- you have accurately determined the classification of supplies
- there are any distorting elements in the methodology
- you applied the method consistently
- you used assumptions in the methodology that could be supported and continue to be relevant over time
- the method is overly complex and burdensome and causes unnecessary compliance costs
- the method is sufficiently sophisticated and appropriate to the nature, size, complexity and resourcing of your business
- the outcome is consistent with your documented understanding of the business activities and relationship or connection between acquisitions and supplies made.

Comparing different methods

While it is feasible that a single method can be identified and considered fair and reasonable, a comparison of different methods will demonstrate that you made a more balanced judgment.

This table will help you to do this. It will also record and address the relevant questions and factors so that you can determine and demonstrate which methods are fair and reasonable. We also provide:

- details of how to use this table
- examples of completed tables.

Example of how to establish your method is fair and reasonable
(include a brief description and formula for each method).

	Method 1	Method 2	Method 3	Method 4
Describe the relationship between the supplies made, method and actual or intended use of the acquisition (in general this factor will carry the greatest weighting).				
Whether the method requires adjustment or adaptation to deal with any distortive factors, and if so, how and why.				
What the costs of compliance and administration are of the method and if reasonable in the context of the business (taking into account resourcing and materiality of				

GST in question).				
The method determined and if it is readily measurable.				
Whether the method is fair and reasonable (or not), taking into account relevant factors, including those listed.				

Common methods used

There are no specified methods that should be used. However, the following are some of the more common methods.

Common methods

Method	Description	Method may be appropriate when:
Time spent	The total time spent in activities that relate to input taxed supplies compared to the time spent in activities that relate to other supplies, for example staff time or computer processing time as evidenced with time sheets.	Acquisitions related to the relevant supplies are used in proportion to staff time or computer time and where the time spent provides a reasonable measure of business activities.
Transaction count	The ratio of number of input taxed supply	Where the costs related to the making

	transactions compared to number of taxable and GST-free supply transactions.	of each type of supply are the same or similar, and you can identify the volumes of transactions for each type of supply made.
Staff head count	The ratio of staff used on making input taxed supplies compared to staff used on making taxable and GST-free supplies.	Acquisitions are used in proportion to the number of staff on making a particular nature of a supply.
Floor space	The ratio of floor space used in making input taxed supplies compared to floor space used in making taxable and GST-free supplies.	When acquisitions can be attributed to specific areas (floor space) of premises and specific activities, making the supply.
Cost	The ratio of costs wholly attributable to input taxed supplies compared to costs wholly attributable to taxable and GST-free supplies.	When there are wholly attributable acquisitions incurred in making both input taxed and taxable and GST free supplies. A significant amount of acquisitions can be directly attributable to making either input taxed supplies or non-input taxed supplies, and the ratio between the two is likely to also reflect the usage of other (non-attributable) acquisitions across the business.

Input tax	The ratio of GST on costs wholly attributable to input taxed supplies compared to GST on costs wholly attributable to taxable and GST-free supplies.	When there are wholly attributable costs incurred in making both input taxed and taxable and GST free supplies.
Asset value	The ratio of assets used to make input taxed supplies compared to assets used to make taxable and GST-free supplies.	When there is a consistent relationship between the use of acquisitions and assets and where the assets appropriately reflect the input taxed, taxable and GST-free supplies made.
Revenue	The ratio of input taxed income or revenue compared to taxable and GST-free income or revenue.	Where acquisitions made in generating revenue is proportionate to the revenue for that supply, across a range of different types of supplies.

Consider the use of existing cost allocation methods that would reflect your business's practical allocation of acquisitions between business functions. This may need to be refined (or indeed ignored) if it is not a relevant driver or measure of usage of an acquisition. For example, the cost of certain acquisitions may be borne by one business unit when in fact some or all of the things acquired are used in another business unit.

A number of methods may be fair and reasonable

Your analysis may identify a range of different methods that are:

- fair and reasonable

- not fair and reasonable.

You can use any method that is fair and reasonable. The fact that some methods may provide a higher rate of recovery than others is not of itself an indicator that they are not fair and reasonable.

Where it is not clear whether a method is fair and reasonable, you should carefully consider whether it should be used.

You should also monitor and review your methods on an ongoing basis and also have regard to the actual acquisitions they are being applied to. This includes considering whether your chosen method needs to be adapted in any way to ensure it appropriately reflects usage of the acquisitions. For example, if using a revenue method, it may be necessary to weight or adjust figures to allow for different revenue/cost ratios across the business, which otherwise may lead to distortions.

Details of how to establish your method is fair and reasonable

You will be able to make informed decisions and appropriate choices of particular methods if you record detailed and accurate descriptions. It will also help you to document your evidence to support your choices.

Details of decision-making methodology

Factor	Commentary on factor
Describe the relationship between the supplies made, method and actual or intended usage of the acquisition	This question and the answer will ordinarily be the most important one. The description of the relationship between the thing acquired and the supplies made will show in a practical and physical way how the thing acquired is used or consumed by the business. So it is important that in answering this question you: • capture the activities of the business, how that information has been

	obtained and describe the acquisitions used • describe the relationship between the acquisitions and the activity, the supplies to be made and the method • describe the usage from physical, economic and profitability perspectives.
Does the method require adjustment or adaptation to deal with any distortive factors? If so how and why?	Record here if the method produces any apparent distortions and if so how those distortions are managed.
What are the costs of compliance and administration of the method and are they reasonable in the context of the business (taking into account resourcing and materiality of GST in question)?	Take into account the compliance costs of applying the methodology and consider if this cost is appropriate in the context of the outcomes achieved and the complexity and diversity of the business.
How is the method determined and is it readily measurable?	Examine and record the process for calculating the method and assess its reliability. Methods that rely on existing cost allocation methods used by the business, may be more reliable and measurable than ones designed and implemented solely for the purposes of GST.
Why is the method fair and reasonable (or not), taking into account relevant factors, including those listed?	Document your conclusions and the reasons for making the decision. Reasons will include commentary on the information recorded against the other questions and any other relevant factors.

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Examples of decision-making methodology

See examples of decision-making methodology to show how you can choose a method.

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The following examples show how you can choose a method:

- Example 1: Identifying an apportionment method for branches and lending business units
- Example 2: Investment trust issues units to investors and has investments that derive interest

These examples show how you can choose a method. They do not represent our view of whether any particular method is fair and reasonable.

Example 1: Identifying an apportionment method for branches and lending business units

Note: These examples haven't been updated to take into account the ATO's recent public advice and guidance. This includes, among others, the updates to GSTR 2006/3 and 2 new rulings, GSTR 2019/2 and GSTR 2020/1 both of which include an example of branch network costs.

A financial supply provider offers the following services to its customers: loans, everyday accounts, credit cards and insurance. The costs of operating the business are sometimes clustered into categories of staff, data processing, property, lending, marketing and general administration.

The business activities often operate through business units of branches, lending, contact centre, cards and administration.

In addition to each business unit bearing its own direct costs, the entity utilises an internal management costing system that reallocates the costs of administration to the other business units, based upon the ratio of the number of staff that are employed in each business unit. This means, for example, that overall administration costs are allocated to branches, lending, contact centre and cards and each of these business units has its own management accounts including all expenses related to that business unit.

The business is then required to determine if this cost allocation, combined with further apportionment (as noted in the table below) provides a fair and reasonable method of determining entitlement to GST credits'.

The following tables show the considerations and conclusions of the business in identifying an apportionment method for the branches and lending business units (the other business units have not been considered in this example).

Apportionment methodology for branches

Method	1. Revenue	2. Transaction count
Formula	Revenue from taxable and GST free supplies ÷ total revenue from all supplies × 100	Number of taxable and GST free transactions ÷ number of all transactions × 100
Relationship between the supplies made, method and actual or intended use of the acquisition. (In general this factor will carry the	The supplies made and facilitated through branches include: operation of accounts, including general and everyday transactions. Some accounts have monthly	There could be difficulty in determining within a branch what constitutes a transaction. For example the withdrawal of money from an account could be said to be one transaction but an enquiry on an account balance may not be a

greatest weighting)	fees and some facilitate the supplies of lending, credit cards and insurance. The activities will be mainly undertaken through face-to-face contact so those activities will use staff costs and also costs of branch premises, light, heat and power in those properties, general administration costs of maintaining premises, systems costs such as hardware, software and communications. The use of the acquisitions such as the premises and systems will have a close relationship to the number of staff in the branches and the way in which they use these resources. Given that many everyday accounts do not have revenue attached or are simply accounts that the customer holds	transaction. Further it may be necessary to determine that for example, a referral to lending or insurance is a transaction. These difficulties are likely to make the method impractical to operate.

	to support other products such as mortgages, the revenue ratio may not be representative of the ratios of activities. In essence, the principle is that the cost of making any supply (such as input taxed, taxable or GST free) is relatively proportional to the revenue for that supply, regardless of the type of supply. Where the 'cost to revenue' ratios are not measurably consistent, there is a risk that the revenue method may not be fair and reasonable.	
Adjustment or adaptation for distortive factors	The branch activities are directed towards generating revenue for the bank as a whole and accordingly if revenue were to be used, it would need to include revenue for all areas. However it is expected this would be distortive in	It is likely that the difficulty in determining what counts as a transaction would result in distortions arising.

	many ways as the use of resources for lending, (for example) may only be used to make a referral and sign documents but generate a higher level of revenue whereas conducting account activity may consume more resources but generate minimal or no revenue (fees on accounts/internal interest income). Supplies made for non-monetary consideration, may also not recognise the use of acquisitions towards the making of supplies.	
Costs of compliance and administration	The cost of compliance would be negligible. The revenue figures are readily available as part of normal business records.	The cost of compliance is not significant as the transaction counts are system generated and simply require the reporting at the relevant periods.

How the method is determined and measured	The method was considered as an option because revenue details are reported in financial statements which are the subject of independent audits.	The transaction count information is readily available from within the systems.
Fair and reasonable	The method is unlikely to be fair and reasonable because the activities as described do not have proportionate relationships to revenue. For example $100 of revenue from a loan may only use 5% of the resources whereas $100 account keeping fees for example may use 85% of the resources.	The method is not likely to be fair and reasonable given the difficulty in determining what may constitute transactions and how that reflects the use of resources.

Apportionment methodology for lending business units

Method	1. Revenue	2. Transaction count	3. T spe

Formula	Revenue from taxable and GST free supplies ÷ total revenue from all supplies × 100	Number of taxable and GST free transactions ÷ number of all transactions × 100	Sta spe tax GST sup sta spe sup 100
Relationship between the supplies made, method and actual or intended use of the acquisition. (In general this factor will carry the greatest weighting)	The supplies in lending include granting loans, mortgages and other forms of lending, which generate interest and fees. The activities involve marketing and selling products, customer liaison in setting up lending, legal and other costs in assessing and managing risk, document preparation and execution, systems processing, ongoing maintenance and general administrative and infrastructure costs. Much of the activity will be undertaken by staff in liaison with customers but there is also a high degree of systems activities.	There could be some difficulty with transaction numbers if customer payments are treated as transactions, especially as loan repayments may be made weekly, fortnightly or monthly. If the transaction is the actual grant of the loan in the first instance this may be more appropriate if the costs of granting each loan are similar regardless of the type and size of the loan.	Sta spe a re mea use res suc sys leg pre oth refl the spe Hov like son cos doc cos ong sys are refl the spe anc acc the spe be of a acc usa

Adjustment or adaptation for distortive factors	Where the revenue from lending is in general reflective of the resources used, the revenue method may be appropriate. For example if the costs of generating and maintaining a large loan are not vastly disproportionate to a small loan, this method may be fair and reasonable. If however, GST-free loans are, for example, typically 10 times greater than input taxed loans, this would distort the ratio and skew the outcome in favour of GST-free loans which would therefore be distortive.	Distortion would occur if the activity of lending is not consistent, regardless of the size or type of lending.	Dis may the spe is n refl the oth res exa unli sta refl ong mai of t thro sys mar pay inte cha of s etc
Compliance and administration costs	The cost of compliance would be negligible. The revenue figures are readily available as part of normal business records.	The cost of compliance is not likely to be significant.	Cos sigr sta rec tim and and the info How this und for mar

			pur the be adc cos
How the method is determined and measured	The method was considered as an option because revenue details are reported in financial statements which are the subject of independent audits.	The transaction count information is readily available from within the systems.	If th rep sys ma rea det sta req rec spe of h erro
Fair and reasonable	The method is likely to be fair and reasonable where there is limited difference between the average value and revenue from loans that are input taxed and those that are GST-free or even taxable.	The method could be considered fair and reasonable if the transaction count is based on the number of loans and the costs related to the different types of loans are consistent and not excessively distortive.	It is me not anc rea the sta acr terr act loar cor anc ent rep of t acc

Example 2: Investment trust issues units to investors and has investments that derive interest

An investment trust issues units to investors and has investments of cash on deposit and commercial notes (offshore and domestic) that derive interest.

Apportionment methodology

Method	1. Revenue	2. Time spent	3. Ble rever and t spen
Formula	Revenue from taxable and GST free supplies ÷ total revenue from all supplies × 100	Time spent on taxable and GST free transactions ÷ time spent on all transactions × 100	a) Sta for meas use o acqui in ma suppl assoc with memb intere and b Rever formu meas use o acqui for invest mana
Relationship between the supplies made, method and actual or intended use of the acquisition. (In general this factor will carry the greatest weighting)	The supplies made are: the issue of units to investors (members' interests); the credit arrangements with cash on deposit for which the trust receives interest; the credit arrangements with notes for which the trust receives interest. The activities of the trust	Staff time spent on member interests as compared to investment management would likely enable a fair reflection of the use of acquisitions as both functions are primarily staff resource based. Time spent by staff on the differing forms of investment within the investment management activities may also be reflective of the use of	This i single meth a 2 st meth firstly calcu the m intere usage throu spent then invest mana usage throu reven there uses and reaso eleme

	are undertaken by the trustee and consist of, in the main, ongoing management and administration of the investments, unit member services and other general trustee functions. The trusts acquisitions are embodied in the trustee's fees and the services performed by the trustee in their own capacity. The revenue from cash on deposit and notes is reflective of the effort and use of trustee services in the investment management functions.	resources, but this would require detailed analysis of time spent.	both other meth and a the pa those meth that a likely fair ar reaso
Adjustment or adaptation for distortive factors	The revenue derived from cash on deposit and interest on notes would likely be reasonable in determining the extent to which the	The use of staff time in the investment management function may be reasonable for all supplies.	There appar distor with t meth

	investment management costs may be used by the trust. However, it does not reflect the use of acquisitions by the trust in providing services to members which are separate and distinct from the activities of investment management. As such the inability of the method to reflect that usage could be distortive.		
Compliance and administration costs	The cost of compliance is considered negligible. The revenue figures are readily available as part of normal business records.	Costs may be significant in enabling systems to extract and report the information. The compliance cost of staff completing time reports could be significant in the investment management functions.	Cost comp is mir by av time recor all sta acros activi
How the method is determined and measured	The method was chosen as it was noted in the ATO ruling GSTR 2006/3 as a method. The revenue details are	If data is reported by systems it may be readily determined. If staff are required to record time spent the risk of human error arises.	Time on me intere recor and captu and r natur repor

	reported in financial statements which are the subject of independent audits.		throu financ syste
Fair and reasonable	The method is not likely to be fair and reasonable as it does not reflect the use of acquisitions in the making of supplies connected with member interests.	The method may produce a reasonable result but the ability and cost of recording, capturing and analysing time spent by investment management staff on the differing investments could be onerous when an alternative of revenue may be more appropriate.	The m recog the ef provic memb servic also reaso meas the us acqui in the inves mana functi is consi that t metho fair an reaso

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Reviewing and documenting decisions

It is important that the decision-making process you follow should include a review mechanism.

Last updated 13 July 2023

The choice of method you make is open to scrutiny through internal governance processes, external audit or ATO enquiry. It is therefore important that the decision-making process you follow should include a review mechanism that tests the robustness of the chosen method, the evidence that it is fair and reasonable and the documentation that demonstrates you have made the right choice.

It is preferable, where possible and practicable, that the review of the method and reasons for its choice should be undertaken by someone other than the original decision-maker. The review process should be one which examines the decision and the documented reasons for decision, taking account of all the guidance identified in this document.

The review process should also consider the quality and degree of confidence in the information and evidence supporting the decision-making process. The following scale may assist.

Scale for testing methodology

Low Quality **1**	**Medium quality** **2**	**High quality** **3**
No analysis and documentation on business activity and use of acquisitions	Limited analysis and documentation on business activity and use of acquisitions	Sound and detailed analysis and documentation on business activity and use of acquisitions
No analysis and documentation of business structures and internal cost allocation methods	Limited analysis and documentation of business structures and internal cost allocation methods	Sound analysis and documentation of business structures and internal cost allocation methods
No comparables used	Broad, inexact comparables used	Comparability undertaken with reasoned commentary
No assessment of distortive factors or irrelevant data inclusion	Limited assessment of distortive factors or irrelevant data inclusion	Full and detailed assessment of distortive factors or irrelevant data inclusion

No reasoned and documented judgment on fair and reasonable	Limited reasoning and documentation of judgment on fair and reasonable	Fully reasoned and documented judgment on fair and reasonable

Assurance

After you have applied the methodology outlined here, you may seek clarification that your intended methodology is fair and reasonable. You can do this by **applying for a private binding ruling**. If you apply, it would be helpful to include the answers to questions listed in Assessing whether the method is fair and reasonable.

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GST record keeping for financial suppliers

GST records that need to be kept for financial suppliers.

Last updated 13 July 2023

Assurance and priority issues

We seek assurance that financial suppliers are correctly reporting their GST payable and GST credits claimed.

When you keep good records we can have more confidence that you are reporting correctly.

We have set clear expectations about the records financial suppliers need to keep in relation to priority issues we have identified under our GST Financial Services and Insurance strategy.

For more detailed information on what is required, see:

- Top 100 GST assurance program
- Top 1,000 combined assurance program

- **Top 1,000 GST assurance program**
- **GST Governance, Data Testing and Transaction Testing Guide**
- **Seven principles of effective tax governance** – for small and medium businesses.

The priority issues we are focusing on include:

- determining the extent of creditable purpose
- reduced credit acquisitions
- the reverse charge for recipients of cross-border supplies
- classification of supplies
- significant or unusual transactions.

Determining the extent of creditable purpose

To determine the input tax (GST) credits you can claim, you need to estimate the extent of creditable purpose for your acquisitions and importations you make. The requirement that the estimate is fair and reasonable is a prerequisite for any decision you make.

Division 11 requires a factual enquiry into the relationship between your acquisitions and supplies, so it's critical you appropriately document how you have determined that acquisitions have a relevant relationship for this purpose.

Where acquisitions are made by a business area of the enterprise that makes both input taxed and taxable or GST-free supplies, you must ensure that the method gives a fair and reasonable reflection of the extent of the relationships between the relevant acquisitions and the different types of supplies. For example, you will need to have regard to whether some of the acquisitions only relate to making financial supplies. Conversely, you will need to have regard to whether some of the acquisitions only relate to making taxable or GST-free supplies.

To demonstrate that you have correctly determined your entitlement to GST credits under Division 11, we may ask for records that:

- provide a detailed description of the nature of your acquisitions and the supplies made by your business, including tax invoices, contracts and other relevant documentation

- describe your model to identify the relationship between acquisitions and supplies, including the systems processing, tax coding if any, cost centre or product allocation methods you use (for example, process maps that show how the supplies and acquisitions flow through your system; an explanation of how GST credits and GST payable are captured, processed and calculated each period).

Your records must also explain:

- your process for identifying the relationship between acquisitions and supplies to determine the extent of the creditable purpose
- why the method you are using provides a fair and reasonable estimate of the intended use of your acquisitions
- if using a single ECP rate across the business, why that is appropriate in your circumstances
- how the drivers that you use reflect the intended use of your acquisitions and how you tested whether it was fair and reasonable in your circumstances
- the circumstances where treatment of an acquisition varies from the treatment applied to other acquisitions across the cost centre or business, and why the different treatment is fair and reasonable (for example, fully creditable acquisitions being directly allocated, with all other acquisitions being apportioned)
- why it is appropriate to use different methods across your business and why it is fair and reasonable to take this approach
- how your processes to determine the GST treatment of supplies and acquisitions interact with your accounting systems and confirm that you use the information available in those systems. For example, your records may need to explain
  - why you are using a method that does not align with your natural or existing accounting or cost management systems
  - why you did not use these existing systems
  - why using these systems would not produce a fair and reasonable outcome

- the process you've taken to identify and exclude factors that could distort your apportionment method such as
  - if a revenue formula is used this may require non-monetary consideration to be recognised
  - whether material one-off transactions are appropriately treated
- the steps you take to identify when an adjustment arises because the actual use of your acquisition differs from your intended use
- the steps you take to ensure your method continues to be fair and reasonable in your circumstances such as
  - regularly updating any sample data used to inform inputs to your apportionment method, to ensure your method reflects the intended use of your acquisitions – for example, if a method uses an input where updated data is readily available on an annual basis, such as transaction count or revenue data, we would expect the input used in the method to be updated annually
  - testing the assumptions behind the methodology if your business changes
  - comparing your method to other methods reasonably available to you
- any changes in your apportionment methodology and the reasons for those changes (for example, you may provide a comparative analysis of your revised method and your previous methods)
- that you meet the requirements to apply Practical Compliance Guideline (PCG) 2017/15: *GST and customer owned banking institutions*, if you rely on this PCG to apply the 18% rate as your extent of creditable purpose – this PCG is intended to remove complexity and to minimise compliance costs for customer-owned banking institutions in meeting their GST obligations
- how you have taken into account the Commissioner's public guidance on apportionment of costs to provide credit cards, transactions accounts and home loans – where applicable, we may ask you to tell us in writing whether you have reviewed your risk rating under PCG 2019/8: *ATO compliance approach to GST*

apportionment of acquisitions that relate to certain financial supplies and which risk zone your arrangements fall within.

We may have concerns if you estimate:

- that your acquisitions are partly creditable and include them in an apportionment method, without first considering whether they have no creditable purpose because they only relate to input taxed supplies you make
- the extent of creditable purpose for acquisitions using an indirect method that is not fair and reasonable, when direct methods are available to you (for example, where you treat acquisitions as being overheads and apply an enterprise rate, when instead you could have used information you hold to recognise in your apportionment method that acquisitions directly relate to specific supplies).

You should focus on whether there is sufficient information to enable us to ensure that your method is fair and reasonable in your circumstances.

We expect that your processes, including apportionment methods:

- can be explained
- are supported by a good conceptual model
- comply with record keeping requirements.

If your apportionment method is overly complex, difficult for you to explain, or is not appropriately documented, it may be difficult for us to gain assurance that the method is fair and reasonable. The information for the apportionment method must be easily understood and supporting information must be readily available.

For more detailed information, see:

- GSTR 2006/3 *Goods and services tax: determining the extent of creditable purpose for providers of financial supplies*, in particular, paragraphs 145 to 150
- GSTR 2019/2 *Goods and services tax: determining the creditable purpose of acquisitions in a credit card issuing business*
- GSTR 2020/1 *Goods and services tax: determining the creditable purpose of acquisitions in relation to transaction accounts*

- **GSTR 2004/4** *Goods and services tax: assignment of payment streams including under a typical securitisation arrangement*.
- **GSTR 2008/1** *Goods and services tax: when do you acquire anything or import goods solely or partly for a creditable purpose?*

Reduced credit acquisitions

To demonstrate you are correctly identifying **reduced credit acquisitions** and calculating your entitlement to reduced GST credits, we may ask for records to show:

- a detailed description of the nature of your acquisitions that you have identified as reduced credit acquisition, including tax invoices, contracts and other relevant documentation
- your reasoning in distinguishing between mixed and composite acquisitions when determining if you are entitled to
  - a reduced GST credit on your acquisitions
  - the extent of that entitlement
- the process you use to determine whether acquisitions qualify as reduced credit acquisitions, including which supply the acquisition relates to and how the system is able to identify it as a reduced credit acquisition
- the controls you have in place to ensure you correctly calculate your entitlement to input tax credits and reduced input tax credits (for example, you should be able to explain your reasons for deciding an acquisition has a partly creditable purpose and qualifies for a reduced GST credit).

For more information on reduced credit acquisitions, see **GSTR 2004/1** *Goods and services tax: reduced credit acquisitions*.

Reverse charge for recipients of cross-border supplies

We are seeking assurance that you are correctly identifying and treating situations when you need to pay GST on cross-border supplies you receive, because of the reverse charge in Division 84 of the GST Act.

We may ask for records that show:

- the steps you take to identify cross-border supplies you receive where you need to pay GST under the reverse charge – in particular, any supplies you receive that are subject to the reverse charge under the 1 October 2016 changes to the GST law
- details of any apportionment method used for determining entitlement to GST credits or reduced GST credits
- you have appropriately treated related-party cross-border charges (such as those under cost recharge and profit sharing arrangements) for GST purposes. The price of the related-party cross-border charges must be the same as the price used for income tax transfer pricing purposes.

Further information is available on **GST and cross-border transactions between businesses**.

For best practice recommendations on the application of reverse charge rules and linkage to tax governance, see **Application of the reverse charge provisions**.

Classification of supplies

We are seeking assurance that you are correctly applying the GST law to classify your supplies.

For instance, in relation to the use of rights offshore, we will seek assurance that you are correctly applying the principles in the *Travelex* decision when determining whether supplies you make are GST-free because they are made in relation to rights for use offshore.

For example, we may ask for records that show:

- the basis upon which you have determined that your supply is a supply made in relation to rights, including any contractual evidence
- the process you followed to determine the GST treatment of supplies you make, including how you came to the position those particular supplies are GST-free (or partly GST-free), and provide evidence to support that decision

- the process you followed and the evidence used to develop proxies needed to estimate the anticipated use of the rights outside Australia, with your reasoning for why these proxies provide a fair and reasonable estimate of the extent to which the supply is GST-free
- how you determined the extent particular supplies are GST-free and how this is reflected in your apportionment methods.

For more detailed information on the classification of supplies, see:

- GSTR 2002/2 *Goods and services tax: GST treatment of financial supplies and related supplies and acquisitions*
- GSTR 2003/8 *Goods and services tax: supply of rights for use outside Australia - subsection 38-190(1), item 4, paragraph (a) and subsection 38-190(2)*
- GSTD 2017/1 *Goods and services tax: when is the supply of a credit card facility GST-free under paragraph (a) of Item 4 in subsection 38-190(1) of the A New Tax System (Goods and Services Tax) Act 1999 (GST Act)?*
- GSTD 2020/1 *Goods and services tax: when is the supply of a transaction account GST-free under table item 3 or table item 4(a) of subsection 38-190(1) of the A New Tax System (Goods and Services Tax) Act 1999?*

Significant or unusual transactions

We expect you to manage the tax risks involved in significant or unusual transactions, and we may ask you for evidence of:

- the types of issues where you seek advice from internal or external experts or engaging with the ATO if a transaction is
  - contentious
  - highly technical
  - complex
  - significant
  - unusual for your business

- your procedures for staff to identify unusual or significant transactions, which must be escalated to the tax function and ensure these transactions are treated correctly for GST purposes
- your reporting processes for monitoring, reviewing and reporting to senior management and the board on tax risks regarding significant or unusual transactions.

If you use an indirect estimation method to allocate and apportion acquisitions, you should consider how to treat significant and unusual transactions. Applying an indirect estimation method to acquisitions associated with significant and unusual transactions may distort the method. For example, this could be the case where:

- you can directly allocate the acquisitions to the making of particular supplies
- the relationship between the acquisitions and your activities are materially different to those estimated using your apportionment method.

For more detailed information, see:

- GST Governance, Data Testing and Transaction Testing Guide
- Mergers and acquisitions – claiming input tax credits
- GST and floating a company.

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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.

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