Ceasing business

Detailed information about GST and ceasing business.

Adjusting for assets retained after cancelling GST registration

Check how to repay GST credits on business assets after cancelling your GST registration.

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Adjusting for assets retained after cancelling GST registration

Check how to repay GST credits on business assets after cancelling your GST registration.

31 May 2017

How to make an increasing adjustment if you cancel your GST registration and need to repay GST credits on business assets.

Making an adjustment for business assets

If you cancel your GST registration and still have business assets for which you previously claimed GST credits, you may need to repay some of those credits. You do this by making an 'increasing adjustment' on your activity statement.

For example, if you sold your business you would cancel your GST registration and sell most of your business assets with the business. But you may keep some business assets, such as a work vehicle.

If you've held a business asset for a certain period of time you don't need to repay the GST credits – for example, you usually wouldn't need to repay GST credits on a car held for more than five complete financial years.

For each asset you retain you need to:

- work out if it's 'adjustment periods' expired before you cancelled your GST registration
- if the asset's adjustment periods haven't expired, calculate the adjustment amount and include it on your activity statement.

You don't need to make any adjustments for assets if the registration cancellation relates to a deceased estate.

Working out when adjustment periods expire

Each asset you acquire for your business has a number of 'adjustment periods'.

The purpose of adjustment periods is to provide an opportunity to review the business use of your assets over time. If there's a change in business use, you need to make an adjustment to ensure you claim the right amount of GST credits.

In most circumstances, your June tax periods are your adjustment periods.

For assets you retain after cancelling your GST registration, you need to work out if their adjustment periods expired before the cancellation took effect.

Use the tables below to work out the number of adjustment periods for your asset:

- Table A: Assets not used for business finance
- Table B: Assets used for business finance
  - 'Business finance' relates to assets purchased or imported to make financial supplies – for example, to sell shares or make monetary loans – and not used for private or domestic purposes. This does not include assets that you've acquired through a loan or other finance for your business.

Your first adjustment period will be the first June tax period that is at least 12 months after the tax period in which you purchased or imported the asset.

- If the adjustment periods have expired for an asset, you don't have an adjustment.
- If the adjustment periods have not expired for an asset, you'll need to calculate the adjustment for that asset.

Table A: Assets not used for business finance

Purchase or importation value (less GST)	Number of adjustment periods for assets
$1,001 to $5,000	2
$5,001 to $499,999	5
$500,000 or more	10

Table B: Assets used for business finance

Purchase or importation value (less GST)	Number of adjustment periods for assets
$10,001 to $50,000	1
$50,001 to $499,999	5

$500,000 or more	10

Example: GST adjustment period – monthly reporting

Sophie runs a retail clothing business and is registered for GST, reporting on a monthly basis. Sophie buys a computer on 12 September 2010 for $4,400 and has a tax invoice for the purchase. She reports this purchase on her September 2010 activity statement and claims GST credits.

Sophie closes her business and cancels her GST registration in July 2013. She keeps the computer for her private use.

As Sophie used the computer in her retail clothing business (ie it was not used for 'business finance'), she checks table A. As shown in the table, the computer has two adjustment periods.

The first June tax period at least 12 months after the tax period Sophie bought the computer is the June 2012 tax period, and the second is June 2013.

As Sophie cancelled her GST registration after her last adjustment period (June 2013) she does not have an adjustment.

If Sophie had cancelled her GST registration before her last adjustment period (June 2013) she would have had an adjustment.

Example: GST adjustment period – quarterly reporting

Graham is a GST-registered farmer who accounts for GST quarterly. He operates his business on property he purchased on 25 May 2000. In March 2010, Graham made improvements to the farm, carrying out extensive fencing of the property and constructing a dam.

The fencing cost $22,000 (GST-inclusive) and the dam $6,600 (GST-inclusive). Graham claimed GST credits of $2,600 [($22,000 × 1/11th) + ($6,600 × 1/11th)] on his March 2010 activity statement for the GST included in the price of the fencing and the dam.

In 2013 Graham decides to retire and keep the farm with its improvements. He ceases carrying on his enterprise on 30 October 2013 and cancels his GST registration effective the same day.

Graham's first adjustment period for the fence and dam is the June 2011 tax period. This is the first June tax period that is at least 12 months after the tax period in which he purchased the fencing and dam (March 2010).

As Graham uses the fencing and dam in his farming business, they don't relate to business finance. Each item was purchased for more than $5,000 (GST-exclusive). Graham can see from table A that these assets have a maximum of five adjustment periods; the June 2011, June 2012, June 2013, June 2014 and June 2015 tax periods.

Graham is required to make an adjustment to repay some of the GST credits he claimed for the fencing and dam. This is because his last adjustment period had not ended before the cancellation of his registration took effect. Graham makes the adjustment in his concluding tax period.

Graham's concluding tax period is 1 October 2013 to 30 October 2013. The adjustment will need to be reported (together with any GST collected or paid) in his quarterly activity statement for the period ending 31 December 2013.

See also

- **Making adjustments on your activity statement**
- **GSTR 2000/24** Division 129 - making adjustments for changes in extent of creditable purpose.
- Financial services – questions and answers
- **GST and financial supplies**

Calculating adjustments

You need to work out an adjustment for each business asset for which the adjustment periods haven't expired.

Work out the adjustment using the following formula and include the resulting amount on your final activity statement as GST on sales (label **1A**):
(applicable value × actual application) ÷ 11

Applicable value is the lesser of:

- the market value of the asset (including GST) immediately before your cancellation date
- the purchase price or cost of importing the asset (including GST).

Actual application is the percentage of the asset's use that was for business purposes, calculated from the date of purchase or importation until the date you cancelled your GST registration.

- If you've always used the asset solely for business purposes, your actual application percentage is 100%.
- If you've used the asset partly for private purposes, you'll need to calculate the percentage of business use on a reasonable basis.

If you use the calculation worksheet method to account for GST, include the following amount at box **G7** on your worksheet:
applicable value × actual application

Example

Frank, a sole trader who operates a clothing store, is registered for GST and reports quarterly. Frank cancels his GST registration, with effect on 30 September 2013.

Frank decides to keep a car, a computer and a filing cabinet that he had been using for his business. He needs to consider whether an adjustment is required for these assets as they will be held immediately before cancellation takes effect. The exceptions for deceased estates don't apply.

The car, computer and filing cabinet were always used 100% in his business. Frank bought the:

- car in August 2011 for $27,500 and claimed a GST credit of $2,500 for it in the September 2011 tax period
- computer in October 2010 for $3,300 and claimed a GST credit of $300 for it in the December 2010 tax period
- filing cabinet in February 2013 for $660 and claimed a GST credit of $60 for it in the March 2013 tax period.

Frank establishes that the current market value of each asset is as follows:

- car $11,000
- computer $220
- filing cabinet $440.

His first step is to work out whether the adjustment periods for the assets have expired. None of Frank's purchases relate to business finance, so he uses table A to work out the number of adjustment periods for each asset.

- The car has five adjustment periods. The first adjustment period is the June 2013 tax period as this is the first June tax period that is at least 12 months from the end of the tax period in which the purchase of the car was attributed. The fifth and last adjustment period will be the June 2017 tax period. As the adjustment periods will not expire before Frank's cancellation takes effect, he must make an increasing adjustment for the car:
- The computer has two adjustment periods. The first adjustment period is the June 2012 tax period as this is the first June tax period that is at least 12 months from the end of the tax period in which the purchase of the computer was attributed. The last adjustment period is the June 2013 tax period. The adjustment periods for the computer expire before Frank's cancellation takes effect, so he doesn't need to make an adjustment for the computer.
- The filing cabinet has two adjustment periods. The first adjustment period is the June 2014 tax period as this is the first June tax period that is at least 12 months from the end of the tax period in which the purchase of the filing cabinet was attributed. The last adjustment period is the June 2015 tax

period. As the adjustment periods will not expire before Frank's cancellation takes effect, he must make an increasing adjustment for the filing cabinet.

Asset	**Applicable value** (lesser of purchase price and market value)	**x Actual application** for business use	**Subtotal**	**÷ 11**
Car	$11,000	100%	$11,000	$1000
Filing cabinet	$440	100%	$440	$40
Adjustment amount to include at **1A** on activity statement				$1040

See also

- Making adjustments on your activity statements
- Annual private apportionment of GST

Deceased estates

You don't have to make adjustments for retained assets if the GST registration cancellation relates to a deceased estate and the cancellation is due to either:

- the death of a sole trader, after which the executor or trustee of the estate
  - immediately continues the deceased's business, and
  - is registered (or required to be registered) for GST

- the executor or trustee not carrying on the deceased's business but one or more of the beneficiaries
  - immediately continues that business, and
  - is registered (or required to be registered) for GST

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