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Claiming GST credits

Report and pay GST amounts and claim GST credits by lodging a BAS or an annual GST return.

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Understand the risks and governance required when using an Input Tax Credit (ITC) estimator for calculating GST credits.

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When you can claim a GST credit

Find out if you can claim GST credits.

Last updated 14 September 2026

Claiming GST credits

You can claim a credit for any GST included in the price you pay for things you use in your business. This is called an input tax credit, or a GST credit.

To claim GST credits in your business activity statement (BAS), you must be registered for GST.

You can claim GST credits if:

- you intend to use your purchase solely or partly for your business, and the purchase does not relate to making input-taxed supplies
- the purchase price included GST
- you provide or are liable to provide payment for the item you purchased
- you have a tax invoice from your supplier (for purchases more than A$82.50).

When claiming GST credits, make sure your suppliers are registered for GST. You can check the GST registration status of an entity by searching the ABN Lookup website. A 4-year credit time limit applies for claiming GST credits.

For more information, see:

- Completing your BAS for GST
- GST credits and income tax deductions.

GST and purchases for private use

If you purchase goods or services for both business and private use, you can only claim a GST credit for the part of the purchase relating to your business use.

If you later find your actual use differed from your intended use, you may need to **adjust** the amount of GST credits you have claimed.

If you are a small business, you may be able to account for the private portion of your business purchases once a year, rather than each time you lodge an activity statement. To do this you need to make an annual private apportionment election.

For more information, see:

- Annual private appointment of GST
- Small business entity concessions.

When you need a tax invoice

You must have a tax invoice to claim a GST credit for purchases that cost more than A$82.50 (including GST). Your supplier has 28 days to provide you with a tax invoice after you request one. Wait until you receive it before you claim the GST credit, even if this is in a later reporting period.

Tax invoice is incomplete

An invoice containing incorrect or incomplete information is not a valid tax invoice. You may be able to treat it as a tax invoice if it is missing information that can be obtained from other documents the supplier has given you. Alternatively, you can ask your supplier to replace it with a complete and correct tax invoice.

When you don't receive a tax invoice

If your supplier does not respond to your request for a valid tax invoice within the 28-day period, and you haven't been able to find the missing information from other documents issued to you by the supplier, then you can seek our permission to treat a document as a valid tax invoice.

To request our permission, either:

- contact us using Online services for business or Online services for agents and select
  - **Communication tab** and
  - either **Secure mail** or **Practice mail**
  - **New**
  - in the **Topic field,** select **View more topics** from the dropdown list
  - in the **Other topics** list, select **GST**
  - **select** the subject **Other Sales, Purchases or Tax invoice enquiry** from the dropdown list
  - complete all the required details and click **Submit.**
- write to us at
  - **AUSTRALIAN TAXATION OFFICE**
    PO BOX 3524
    ALBURY NSW 2640

Small purchases

To claim a GST credit for purchases that cost A$82.50 or less (including GST), you should have one of the following:

- tax invoice
- cash register docket
- receipt
- invoice.

If you can't get one of these, keep a record of the purchase, such as a diary entry with the:

- name and ABN of the supplier
- date of purchase
- description of the items purchased
- amount paid.

For more information, see Tax invoices.

When you should not be charged GST

GST generally applies to:

- imported services and digital products
- low value imported goods.

You should not be charged GST on these sales if you are registered for GST. You must give the supplier your ABN and state that you are registered for GST. The supplier is not required to provide tax invoices for these sales.

If the supplier has wrongly charged you GST on an imported service, digital product or a low value imported good, you should seek a refund from the supplier.

Reverse charges rules

If you have not been charged GST on a purchase because you have provided the supplier with your ABN and a statement that you are registered for GST, in some circumstances, 'reverse charge' rules require you to pay GST on the relevant purchase through your BAS.

Broadly, under these reverse charge rules, you will need to pay GST on a purchase if you would not have been entitled to claim a full GST credit.

If you are a non-resident business selling goods and services into Australia, see GST for non-resident businesses.

How to work out a GST credit

If your tax invoice does not specify the amount of GST included in the price of your purchase by only stating that the price includes GST, you can work out the GST amount yourself by dividing the price by **11**. The

answer is the amount of GST credit you can claim (provided you use the item wholly for business purposes).

For purchases that you use both for business and private purposes, you can claim a GST credit for the portion you use for business purposes. For example, if 50% of your use of the purchased item is for business purposes, you can claim a credit of 50% of the GST you paid.

If you account on a cash basis and have not fully paid for a purchase, you can claim a GST credit only for the GST included in the amount you have paid. For more information, refer to Choosing an accounting method for GST.

When you have worked out your total GST credits, you can offset them against the amount of GST you are liable to pay to us. If your GST credits are greater than the amount you are liable to pay, you're entitled to a refund.

Tax period you can claim GST credits

The tax period in which you can claim your GST credits will depend on your GST accounting method. The tax period may also be changed by special rules for specific GST credit claims.

GST accounting methods

If you account for GST on a **cash basis**, you can claim a GST credit for a purchase in the tax period in which you make the payment. If you make the payment over multiple tax periods, you can only claim the GST credit in each tax period that relates to the payment made.

If you account for GST on a **non-cash (accruals) basis**, you can claim your full GST credit for a purchase in the first tax period in which either:

- an invoice for the purchase is issued
- you provide part or all of the payment for your purchase.

However, if you need a tax invoice for your purchase, you cannot claim your GST credit until you hold a tax invoice.

Example: cash basis claim paid in monthly instalments

TD Co reports GST monthly and accounts for GST on a cash basis. TD Co purchase equipment for $6,600 (including GST) in July. The payment terms are 3 equal instalments paid across 3 months – July, August and September. TD Co receive an invoice for the total amount including GST in July, but don't receive the valid tax invoice until August.

In July, TD Co pays the first instalment of $2,200. Even though they make a payment, they cannot claim any GST credits in the July BAS as they do not hold a tax invoice.

In August, TD Co makes the second instalment payment of $2,200. TD Co also receives a tax invoice for the total of $6,600 (including GST).

TD Co can claim GST credits of $400 in their August BAS. This is made up of:

- $200 of GST credits for the July payment
- $200 of GST credits for the August payment.

TD Co makes the final payment in September. They can claim the last $200 of GST credits in their September BAS.

Unclaimed GST credits

Sometimes, you may miss claiming a credit in your BAS. This can happen, for example, if you were not aware that you held the tax invoice for a purchase, or you have not yet worked out if you are entitled to a GST credit.

To claim these unclaimed GST credits, you can either:

- request an amendment to the tax period in which you could have first claimed the GST credits
- choose to claim the GST credits in a later BAS, for example, in your next BAS.

Generally, it is easier to include unclaimed GST credits in your next BAS rather than request to amend the earlier tax period. To make the choice to include unclaimed GST credits in your next BAS, you simply add them in the total amount of GST credits on that BAS. There is no other notification you need to give us. However, you will need to keep

your own records that document and evidence your choice to claim the GST credits in that later BAS.

Example: claiming credits in your next BAS

In the previous example above, assume that TD Co does not make any GST credit claim on the purchase as they are unsure if they are entitled to those GST credits.

In November, before lodging their October BAS, TD Co finishes their review and is satisfied that they are entitled to GST credits on their equipment purchase. To claim their GST credits, TD Co can either:

- claim the $600 in their October BAS
- request an amendment to their
  - August period to claim $400 of GST credits
  - September period to claim $200 of GST credits.

TD Co chooses to claim the $600 in their October BAS. TD Co works out the other unrelated GST credits that they can claim in October is $1,000. When completing their October BAS, TD Co claims a total of $1,600 GST credits.

Credit time limit

A 4-year credit time limit applies to GST credit claims. If you consider you are entitled to GST credits that haven't yet been claimed, we recommend you consider your options early. Don't leave requests to the last minute.

For more information see MT 2024/1 Miscellaneous tax: *time limits for claiming an input tax or fuel tax credit*.

QC 22431

When you can't claim a GST credit

Check when you are not eligible to claim GST credits.

Last updated 14 September 2026

You can't claim a GST credit:

- if you are not registered for GST
- for purchases that do not have GST in the price, including
  - where the sale to you is GST-free (such as basic foods)
  - where the sale to you is input-taxed (such as residential accommodation, bank fees and loan interest)
  - purchases from a supplier that is not registered or required to be registered for GST (and therefore can't charge GST)
- for wages you pay to staff (there is no GST on wages)
- if you do not have a valid tax invoice for purchases that cost more than $82.50 (including GST) when you lodge BAS, however, there are specific circumstances where GST credits can be claimed without a tax invoice.

You also can't claim GST credits for some purchases (even if GST is included in the price), including:

- to the extent that a purchase is for a private or domestic purpose
- to the extent that a purchase is for making an input-taxed supply (such as those associated with providing residential accommodation)
- for real property purchased under the margin scheme
- for some purchases that you can't claim as an income tax deduction (such as entertainment expenses)
- for the part of the purchase price of a car that is over the car limit amount for the relevant financial year
- where the 4-year credit time limit for claiming a GST credit for the purchase has ended.

QC 22434

Effect of GST credits on income tax deductions

Examples explaining the effects of GST credits on income tax deductions.

Last updated 14 September 2026

If you can claim a deduction for a business purchase in your tax return, claim the amount of the purchase less any GST credit you're entitled to.

Example 1: businesses registered for GST

Alice, a GST-registered computer repairer, buys stationery for her business. She pays $22 (including $2 GST).

Alice can claim a GST credit of $2 on her activity statement and $20 as an income tax deduction on her tax return.

If you're not entitled to a GST credit, claim the full cost of the business purchase, including any GST, as a deduction.

Example 2: businesses registered for GST, but purchase relates to making input-taxed supplies

Alice also has a residential unit that she has rented out. She does some repairs to the unit costing her $110.

As the supply of the residential unit is an input-taxed supply, Alice is not entitled to claim any GST credit for the purchases that relate to the unit.

Alice can claim a deduction for the full amount of $110 on her tax return.

Example 3: businesses not registered for GST

Rob is a computer repairer but is not registered or required to be registered for GST. He buys stationery for his business at a cost of $22 (including $2 GST).

Rob can't claim a GST credit for the $2 GST as he is not registered for GST. Rob can claim the full $22 as an income tax deduction on his tax return.

For capital assets, such as machinery, you may be entitled to an income tax deduction for the asset's decline in value (depreciation). The cost of an asset that you can depreciate is reduced by the amount of any GST credit that you are entitled to. That is, when working out the decline in value, use the cost of the asset less any GST credits you're entitled to.

Example 4: GST credits and decline in value

John is registered for GST and buys a new photocopier for his business. The seller is registered for GST and charges John $1,100 (including $100 GST). John can claim a GST credit of $100 on his activity statement.

John can also claim an amount that reflects the decline in value of the photocopier on his tax return. John subtracts his GST credit from the purchase price ($1,100 − $100 GST = $1,000). He uses $1,000 to calculate the deduction he is entitled to in his tax return.

For more information, see:

- When you can claim a GST credit
- Special rules for specific GST credit claims
- When you can't claim a GST credit

QC 22435

Special rules for specific GST credit claims

Special rules apply when setting up a company, purchasing second-hand goods, and in some other circumstances.

Last updated 14 September 2026

Pre-establishment costs

If you're setting up a company, the company can claim GST credits for the GST included in the price of some purchases you make before the company comes into existence, such as set-up fees, business registration, trading stock and business premises.

To claim GST credits for these pre-establishment costs the following 7 criteria must apply:

- the purchase must be for the purpose of bringing the company into existence or carrying on a business after it comes into existence
- the company must come into existence and be registered for GST no more than six months after the purchase
- you must become a member, officer or employee of the company
- the company must have fully reimbursed you for the cost of the purchase
- the purchase must not be used to make input-taxed sales or for private purposes

- the company must not be entitled to a GST credit for the purchase, if it subsequently acquires the thing from you
- you must not be entitled to claim a GST credit for the purchase.

Second-hand goods

You can claim a GST credit for any second-hand goods you buy from unregistered suppliers for the purposes of sale or exchange but not for manufacture (even though GST is not included in the price of the goods), provided you meet certain conditions.

Other special rules

There are a number of other special rules about claiming GST credits. They include:

- periodic or progressive supplies, such as lease payments or service contracts
- purchases made with corporate credit cards
- purchases of land under standard land contracts
- supplies of gas and electricity by public utility providers
- lay-by purchases.

For more information, see:

- GSTR 2000/35 *Division 156 – supplies and acquisitions made on a progressive or periodic basis*
- GSTR 2000/26 *Corporate card statements – entitlement to an input tax credit without a tax invoice*
- GSTR 2000/28 *Attributing GST payable or an input tax credit arising from a sale of land under a standard land contract*
- GSTR 2000/32 *Attributing GST payable on supplies of gas and electricity made by public utility providers*
- GSTR 2000/12 *Attributing GST payable and input tax credits for supplies and acquisitions under lay-by sale agreements*

QC 22436

Time limit on GST credits

If you're entitled to a GST credit, you need to claim it within the 4-year time limits for claiming GST credits.

Last updated 14 September 2026

4-year credit time limit

Your entitlement to a GST credit ceases unless it is included in an assessment before the end of 4-year credit time limit.

The 4-year credit time limit ends 4 years after the lodgment due date of the BAS for the tax period in which you could have first claimed the GST credit (setting aside any requirement to hold a tax invoice).

If you account for GST on a cash basis, the earliest tax period in which you can claim a GST credit for a purchase is the tax period in which you make the payment. If you make the payment over multiple tax period, the 4-year credit time limit applies separately to each part of the payment.

If you account for GST on a non-cash (accruals) basis, the earliest tax period in which you can claim a GST credit for a purchase is the first tax period in which either:

- an invoice for the purchase is issued
- you provide part or all of the payment for your purchase.

If you lodge your BAS on time and include the GST credits you are entitled to, those credits will be included in an assessment well within the time limits and you will not lose your entitlement. Conducting timely reviews or reconciliations to identify errors early will ensure you have sufficient time to address mistakes before the 4-year credit time limit ends.

Even where the 4-year credit time limit for claiming GST credits is about to end, you still need to ensure that you are adhering to your GST reporting obligations. If you claim additional GST credits and we

review them and decide you are not entitled to those GST credits, you may be subject to penalties and interest.

Actions taken after the 4-year credit time limit ends **can't** revive your entitlement to a GST credit. We have no discretion to extend the 4-year credit time limit.

Example: time limit for GST credit (cash accounting)

Mia paid for office equipment in March 2020. Mia reports quarterly and on a cash basis.

The first tax period in which Mia could have claimed GST credits for the purchase of office equipment is her March 2020 quarterly tax period. Mia's BAS for this quarter is due on 28 April 2020. The 4-year credit time limit ends at the end of the day on 28 April 2024.

When a GST credit is included in an assessment

A GST credit that you have included in your BAS for a tax period is included in your assessment for that tax period. The GST credit is included in your assessment on the day you lodge your BAS.

Where we make an amendment to your assessment to add additional GST credits, those credits will also be included in an assessment. These credits are included on the day we make the amended assessment.

When a GST credit is not included in an assessment

The following actions don't result in a GST credit being included in your assessment:

- applying for a private ruling
- making a request for an amendment to your assessment

- lodging a revised activity statement (this is treated as a request for an amendment to your assessment)
- making a voluntary disclosure
- lodging an objection.

If you consider you are entitled to GST credits that haven't been included in an assessment, we recommend you consider your options early and do not leave things to the last minute.

Options for unclaimed GST credits

If you are yet to lodge your BAS for the tax period in which the GST credits could be claimed, you can claim the credits in that BAS. Your BAS must be lodged before the end of the 4-year credit time limit or you will lose your entitlement to the GST credits.

If you have already lodged your BAS for the tax period in which the GST credits could be claimed, your options include:

- claiming GST credits in a later BAS
- amendment requests
- objections.

If you are under current compliance activity, you should engage with the compliance team in relation to your options.

Claiming credits in a later BAS

GST credits that you haven't previously claimed don’t have to be claimed in the original tax period. You can claim the credits in a later BAS. However, the BAS will need to be lodged within the 4-year credit time limit for those GST credits otherwise your entitlement to those credits will cease.

Amendment requests

Amendment requests and voluntary disclosures that seek to include additional unclaimed GST credits in a past tax period are requests for us to do something. Consideration of your request may take time and we may require evidence to verify your entitlement to the additional GST credits. Any revision or amendment we make to your assessment

as a result of your request may not be done on the day you made the request.

GST credits are only included in your assessment if we make a revision or amendment to your assessment. The GST credits will be included in the assessment at the time the revision or amendment is made.

Your entitlement to GST credits can cease in the period between when you submit an amendment request or voluntary disclosure to us and when amendments are processed. If the 4-year credit limit has ended before any revision or amendment is made, your entitlement to the GST credit will have ceased and we can't revise or amend your assessment to include the GST credits, unless an exception applies. It doesn't matter if your application or request was made within the 4-year credit time limit for the GST credits or during the period of review for the assessment.

You should consider making your amendment request via Online Services using a revised BAS (RBAS). These requests are generally processed faster than amendment requests made through other channels. If you have lodged an amendment request, you should actively monitor the request.

If the 4-year credit time limit for claiming the GST credits is within a one month of expiring and the amendment request has not been processed, you can phone us on **13 28 66** (within Australia).

Objections

Lodging an objection request by itself does not result in GST credits being included in your assessment. However, we may still be able to allow your GST credits in our objection decision if all of the following are met:

- You lodge a valid objection against your assessment for the tax period in which you could have claimed the GST credits (taking into account the tax invoice requirements) which includes your position that you are entitled to the unclaimed GST credits in the tax period.
- The objection is lodged within the 4-year credit time limit for those GST credits.
- We, or subsequent court or tribunal proceedings, agree you are entitled to the GST credits in that tax period.

If your objection is lodged outside the 4-year credit limit, your entitlement to the GST credits will have already ceased. This will be the case even if the objection was lodged in the objection time limits or is treated by us as being lodged within the objection time limits.

If unclaimed GST credits are not attributable to the tax period that the objection is for, the credits can't be allowed as part of the objection. If the 4-year time limit for those GST credits passes without the credits being included in an assessment, your entitlement to those credits will still cease.

Lodging a private ruling request, amendment request or a voluntary disclosure within the 4-year credit limit doesn't achieve the same outcome as lodging a valid objection within the 4-year credit time limit.

An objection should be a last resort as it's typically used to dispute a decision or assessment, not to fix a mistake. However, you should engage with us where there is a dispute, for example, where you are taking a position contrary to an ATO view, in which case an objection is an appropriate avenue.

Remember to be specific and state fully and in detail the grounds for objection. The amounts in your objection will be scrutinised and you must be able to substantiate amounts with appropriate documentation.

Example: objection in the 4-year credit time limit

John purchased various pieces of equipment for his business in June 2020 for $3,300. John paid for the equipment in full and received a tax invoice at the time of purchase. John reports quarterly and on a cash basis.

John could have claimed GST credits of $300 in the June 2020 tax period. John did not claim the credits when lodging the BAS for the tax period. The due date for the June 2020 BAS was 28 July 2020.

In July 2024, John realises he has not claimed credits for his purchases. John decides to lodge an objection for the June 2020 period. John lodges his objection on 24 July 2024 and states in his grounds that he is entitled to an extra $300 GST credits for his equipment purchases.

The Commissioner does not consider his objection until 4 August 2024, after the expiry of the 4-year credit time limit. Although

the 4-year credit time limit has expired, the Commissioner can still allow John's objection (if satisfied that John is entitled to the credits) because:

- John's objection was lodged and raised the entitlement to the GST credit within the 4-year credit time limit
- the GST credit is attributable to the tax period objected to.

Period of review

The 4-year credit time limit is different to the period of review.

The period of review is the period during which we can amend your assessment. This is generally, 4 years from when you lodge your BAS. The period of review can be extended by an agreement or could be refreshed where there is an amendment. There are also some exceptions to this period where we can amend your assessment after the period ends. The 4-year credit limit is not an exception to the period of review.

While we might be able to amend your assessment (for example, where we are within the period of review or because of an exception to the period of review), we can't amend the assessment to include unclaimed GST credits if the 4-year credit time limit has ended and no exception applies.

This means there are situations where we can amend your assessment for overpaid or underpaid GST, overclaimed credits and increasing or decreasing adjustments, but we can't include the unclaimed credits where your entitlement to those credits has ceased.

Exceptions to the 4-year credit time limit

There are 2 exceptions to the 4-year credit time limit.

The first exception applies if, in the absence of fraud or evasion, both of the following occur:

- You didn't claim a GST credit for an acquisition that you believed related to an input-taxed supply.
- After the 4-year credit time limit has ended, we make an amendment on the basis that the supply is not input taxed.

You can claim the GST credit in these circumstances if we are still able to amend the assessment for the tax period in which you first could have claimed the GST credit (putting aside the tax invoice requirements).

The second exception applies where you ask us, within the 4-year credit time limit, to treat a document as a tax invoice. If we agree to your request after the 4-year credit time limit has ended, you will remain entitled to the GST credit.

For more information, see:

• MT 2024/1: *Miscellaneous Tax: time limits for claiming an input tax or fuel tax credit*

• Period of review

QC 22778

Input Tax Credit estimators

Understand the risks and governance required when using an Input Tax Credit (ITC) estimator for calculating GST credits.

Last updated 14 September 2026

What is an Input Tax Credit estimator

An ITC estimator is our general term for any methodology used to estimate GST credits for unprocessed tax invoices (tax invoices you hold that haven't been processed in your accounting system at the end of a tax period – or in time for your business activity statement (BAS) lodgment).

There are various ITC estimator methodologies. They all rely on data to calculate an estimate, average, or percentage of GST credits for the unprocessed tax invoices of a business for a tax period.

ITC estimators are generally used by large organisations that have the necessary governance, processes, and systems in place to ensure that the ITC estimator is used and reviewed appropriately.

Risks associated with using an ITC estimator

We strongly encourage you to assess all of the risks associated with the use of ITC estimators.

An ITC estimator raises the complexity of your accounting arrangements and increases the risk that you'll over-claim your GST credits. As a result, you're more likely to be reviewed by us.

Your compliance costs may increase if you use an ITC estimator. This is because in addition to undertaking regular reviews of your ITC estimator methodology, you may need to make revisions to your BAS for tax periods where you have over-claimed your GST credits.

An ITC estimator will adversely impact your business' risk profile with us if you don't have appropriate controls and strong governance in place.

If you use an ITC estimator, you may be subject to penalties and general interest charge (GIC).

Penalties and GIC

You may be subject to penalties and GIC if we undertake a review and it's identified you:

- have made a false or misleading statement
- aren't able to demonstrate that you hold valid tax invoices for the GST credits claimed in your BAS.

Where you or your agent fail to take reasonable care in preparing and lodging your BAS, and this results in a false or misleading statement – we'll review the behaviour of you and your agent leading up to the lodgment of that BAS to determine penalties.

When considering your behaviour for penalty purposes, we'll apply an objective test to determine whether your ITC estimator produces an accurate estimate of your GST credit entitlement for unprocessed tax invoices.

If on an objective assessment, your ITC estimator is likely to, or does produce an inaccurate estimate – this would be a strong sign that your behaviour in the preparation of your BAS, demonstrates a lack of reasonable care, recklessness or intentional disregard of the law.

A failure to implement appropriate governance and internal controls, to conduct regular reviews of your estimate, or to take steps to minimise GST credit over-claims, would be a strong sign that your behaviour demonstrates a lack of reasonable care, recklessness or intentional disregard of the law in the preparation of your BAS.

For more information on penalties and interest, see:

- PSLA 2012/5 *Administration of penalties for making false or misleading statements that result in shortfall amounts*
- PSLA 2005/2 *Penalty for failure to keep or retain records*
- PSLA 2011/12 *Remission of General Interest Charge*
- MT 2008/1 *Penalty relating to statements: meaning of reasonable care, recklessness and intentional disregard*

Using an ITC estimator – key actions

Ensure that the ITC estimator is appropriate for your business, including making allowances for business fluctuations, so you do not overclaim your GST credits in any tax periods.

Update your governance process and documentation to ensure appropriate use and reviews.

Regularly review the accuracy of your ITC estimator methodology. It isn't appropriate to use a 'set and forget' approach.

As part of this regular review, reconcile the estimated GST credit claim against your actual entitlement to GST credits for each tax period that you have used an ITC estimator.

You should implement appropriate systems, controls and robust governance. Ensuring the calculation and use of the ITC estimator complies with any relevant accounting standards.

Reviewing your ITC estimator

We expect you to review your ITC estimator (at a minimum):

- every 6 months
- at any time where there is a material event or change to the business (significant expenditures, seasonal variations, business system changes or business re-structuring).

In your review, you should:

- assess the appropriateness of your ITC estimate going forward
- reconcile your estimated GST credit claims against your actual GST credit entitlements for each of the tax periods since your last review.

Assessing your ITC estimate going forward

When assessing the appropriateness of your ITC estimate going forward, you should (where relevant):

- Consider your future business outlook including financial forecasts, major contracts and other economic conditions. It isn't enough to just rely on past data.
- Ensure significant expenditure and seasonal variations are taken into account. For example – if the expenditure varies significantly due to seasonal trends, you should take a conservative approach in order to reduce the risk of over-claiming GST credits. Your ITC estimate calculation should be based on the month with the lowest delayed GST credits, rather than using an average. Alternatively, you may vary the estimate at relevant tax periods to reflect the seasonal variations – including year-end processing.
- Make adjustments for material changes in business operations. For example – the expenditure patterns of a mining business may shift as the mine moves from the development phase to its commissioning and operation. We would expect the methodology to be adjusted to take into account changing patterns and types of expenditure at each phase. Although expenditure may increase in some phases, that expenditure may be on acquisitions that aren't subject to GST.
- Ensure the methodology takes account of any material downturns in business activity.
- Ensure you have robust governance and controls in place to monitor the appropriateness of your estimate, minimising the chance of an over-claim.

This isn't an exhaustive list. You may need to consider other factors when assessing the appropriateness of your estimate, to avoid over-claiming your GST credits.

Find out more above good tax governance in our tax risk management and governance review guide.

Reconciling your estimates of GST credits

For each tax period under review, you must compare your total GST credit entitlement to the amount of GST credits that you claimed using your ITC estimator. This will show that you have either claimed more or less GST credits than your actual entitlement and will determine what corrective action (if any) needs to be taken on your BAS for that particular tax period.

When conducting your reconciliation of multiple tax periods, it isn't appropriate to compare the total over-claims against under-claims to arrive at a net adjustment figure. Each tax period is discreet and must be reconciled separately.

What corrective action do you need to take?

Under-claims

In most cases where you have under-claimed your GST credits in a tax period, you won't need to take any corrective action on any BAS. This is because the GST credits will have been processed and taken into account in the BAS for following tax periods. Once the GST credits have been taken into account (in later tax periods) it isn't possible to take them into account in an earlier tax period.

The exception to this is where you haven’t lodged a subsequent BAS when you became aware of an under-claim. In this case you may amend the original BAS.

Over-claims

In most cases where you have over-claimed your GST credits, you must amend your original BAS to reduce the net amount by the over-claim.

The exception to this is where you meet the conditions in GSTE 2013/1 *Goods and Services Tax: Correcting GST Errors Determination 2013* (the Determination).

Correcting GST errors

If the error satisfies the conditions in the Determination you may be able to make a correction to your current BAS.

The Determination explains that there are 2 types of GST errors you can make – a credit error and a debit error.

Credit errors

You make a credit error if you make a GST error in working out your net amount for a reporting period that would have – if it was the only mistake in the reporting period – resulted in you reporting or paying too much GST. Claiming a GST credit on a later BAS because you failed to claim it in an earlier BAS is not a credit error.

An under-claim as a result of using an ITC estimator is not a credit error for the purposes of the Determination. This is because under-claims are automatically claimed (taken into account) in following BAS once the relevant tax invoices are processed.

Debit errors

You make a debit error if you make a GST error in working out your net amount for a reporting period that would have – if it was the only mistake in the reporting period – resulted in you reporting or paying too little GST.

An over-claim as a result of using an ITC estimator is a debit error for the purposes of the Determination. You may be able to correct this error in a following BAS if you meet the requirements of the Determination.

Amongst other things, the Determination requires that a debit error comes within time and value limits. The net sum of debit errors is one or more debit errors less any credit errors you choose to include or correct in a following BAS. As explained, under-claims of GST credits as a result of using the ITC estimator are not credit errors and can't be used to offset your debit errors.

If a debit error or net sum of debit errors is below your value limit, you can correct the errors in a following BAS. If a debit error or net sum of debit errors exceeds your value limit, you can still correct the errors up to the value limit in a following BAS. The balance (excess over the value limit) of the errors will need to be corrected in the original BAS (see worked example for practical application).

You can't use the Determination to correct a debit error in some situations, including where the error is a result of recklessness or intentional disregard of a GST law.

Worked example

Zebra Pty Ltd (Zebra) lodges monthly BAS and has a GST turnover of $500 million. Zebra commences using an ITC estimator in July 2020.

Zebra estimates that the GST credits for its unprocessed tax invoices are $1.5 million per month. It claims this additional amount (the ITC estimate) in its July 2020 BAS. The ITC estimate balance is $1.5 million.

In February 2021, Zebra undertakes a review of its ITC estimator to assess the appropriateness of its $1.5 million estimate going forward. As part of this review, Zebra also reconciles its estimated GST credit claims against its actual GST credit entitlements for the tax periods from 1 July 2020 until 31 December 2020.

Where Zebra identifies that it has an over-claim that it can't correct in a later tax period using the Determination – it must make a revision to the original BAS for that tax period. When this occurs, they must also reduce their ITC estimate balance by that amount for following tax periods.

In later tax periods, Zebra will compare this (or any following) reduced ITC estimate balance to their actual GST credit entitlement for the relevant tax period. This is to determine the amount of any over-claim or under-claim.

The table below illustrates over-claims and under-claims identified by Zebra as part of the reconciliation. It explains what corrections or revisions Zebra can make, and any impacts on the balance of the ITC estimate.

Tax period	Over claim (debit error) ($)	Under claim (not a credit error) ($)	Correction/ revision	Reason

Jul-20		100,000	No correction or revision needed.	Will be claimed in subsequent AS when invoices are processed.
Aug-20	50,000		Zebra chooses to correct this $50,000 debit error in Feb 17 AS.	On review in Feb 17, the net sum of the debit errors in the period Jul 16 to Dec 16 is $200,000. Zebra's debit error value limit is $80,000. There are no credit errors to offset. Zebra can correct up to $80,000 of its total net debit errors for Jul 16 to Dec 16 in Feb 17. Zebra corrects the $50,000 debit error for Aug 16 in the Feb 17 AS.
Sep-20	50,000		Zebra chooses to correct	The debit error value limit of

			$30,000 of this $50,000 debit error in the Feb 17 AS. Sep 16 AS must be revised for the remaining $20,000.	$80,000 is now exceeded by the $50,000 error in Aug 16 and $30,000 error in Sept 16 AS. The remaining $20,000 debit error must be revised in the original Sep 16 AS. If applicable, GIC and penalties are assessed from the due date for lodgment of the Sep 16 AS.
Oct-20		150,000	No correction or revision needed.	Will be claimed in subsequent AS when invoices are processed.
Nov-20		100,000	No correction or revision needed.	Will be claimed in subsequent AS when invoices are processed.
Dec-20	100,000		Zebra must correct this error by	The debit error value limit of

			revising the Dec 16 AS.	$80,000 was exceeded by errors in Aug 16 and Sept 16 AS. The Dec 16 AS must be revised to correct the debit error of $100,000. Zebra can't correct any of this debit error in the Feb 17 AS. If applicable, GIC and penalties are assessed from the due date for lodgment of the Dec 16 AS.

After making the revisions outlined in table above, the balance of Zebra's ITC estimate at the end of December 2020 is $1.38 million (the original $1.5 million estimate reduced by the revisions of $20,000 in September 2020 AS and $100,000 in December 2020 AS).

For the tax periods commencing 1 January 2021, the ITC estimate of $1.38 million will be used for reconciliations.

Zebra is required to reduce label 1B by $80,000 in the February 2021 BAS. This is because they chose to rely on the Determination to correct debit errors of $50,000 and $30,000 from the August and September 2020 tax periods respectively.

Determining the appropriate ITC estimate for the next 6 months

As part of its 6 monthly review, Zebra assesses the appropriateness of its ITC estimate for the next 6 months.

Scenario 1: Decrease in estimate

Zebra reviews their ITC estimator methodology taking into account their future forecasts, and determines that the appropriate ITC estimate for the next 6 months from February 2021 is $1.2 million.

Zebra already has an $80,000 correction to be made by reducing label 1B in the February 2021 BAS. Therefore, to change the ITC estimate from $1.38 million to $1.2 million, they will decrease label 1B in the February 2021 BAS by a total of $180,000 ($100,000 decrease for the estimator forecast and an $80,000 decrease for the debit error correction for the August and September 2020 tax periods).

Scenario 2: Increase in estimate

Zebra reviews their ITC estimator methodology taking into account their future forecasts. They determine that the appropriate ITC estimate for the next 6 months from February 2021 is $1.7 million.

Zebra already has an $80,000 correction to be made by reducing label 1B in the February 2021 BAS. Therefore, to change the estimate from $1.38 million to $1.7 million, they will increase label 1B in the February 2021 BAS by a total of $320,000. The decrease of $80,000 at label 1B (to correct the errors from the August 2020 and September 2020 tax periods) is no longer needed, because the correction is negated by the revised estimate.

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