



 [Print whole section](#)

In detail

Detailed information about not-for-profit organisations and tax.

Income tax



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GST and motor vehicle trade-ins for charities



Explains the goods and services tax (GST) treatment of motor vehicles you trade-in to purchase other vehicles.

Checklists



Checklists to help in the organisation of not-for-profit organisations.

Encouraging NFP participation in the tax system



We help NFPs to participate in the tax systems and meet their obligations. We support NFPs that do the right thing and are committed to deter the dishonest minority.

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QC 81929

GST and motor vehicle trade-ins for charities

Explains the goods and services tax (GST) treatment of motor vehicles you trade-in to purchase other vehicles.

Last updated 11 March 2014

Terms we use

When we say **you**, we mean you as an **endorsed charitable institution**, an **endorsed trustee of a charitable fund**, a **gift deductible entity** or a **government school (or a non-profit sub-entity of any of these organisations)**, where you are registered or required to be registered for GST.

(Refer GST definitions: GST credit, payment, purchases, sales).

How do you account for GST on vehicles you trade in?

If you purchase a motor vehicle and use your current vehicle as a trade-in, you are conducting two transactions:

1. purchasing a motor vehicle
2. selling a motor vehicle by way of trade-in.

For GST purposes, this means that the trade-in price of the vehicle you are selling must not be offset against the price of the vehicle purchased.

When you trade in your vehicle, the trade-in price is the amount you receive for the sale. You must show the trade-in price on your activity statement at **G1**, even if you purchased the vehicle before the GST was introduced. You must also show the price of the vehicle that you have purchased on your activity statement at **G10**.

If you are registered for GST and you have used the vehicle solely or partly in your enterprise, the trade-in may be GST-free under the non-commercial rules.

Where the non-commercial rules apply, you **must** treat the trade-in as GST-free. You **cannot** choose to treat the trade-in as a taxable sale and issue a tax invoice to the dealer. The dealer is not entitled to a GST credit on a GST-free trade-in.

How do the non-commercial rules affect your motor vehicle trade-ins?

If you trade in a motor vehicle, the trade-in will be GST-free if the payment you receive is either:

- less than 50% of the GST-inclusive market value of the vehicle
- less than 75% of the amount you paid to purchase the vehicle.

Generally, if you trade in a motor vehicle, the trade-in price will be the full market value of the vehicle. Therefore, the trade-in will not be GST-free under the first of the non-commercial rules above.

However, if you trade in a motor vehicle and the trade-in price is less than 75% of the amount you paid to purchase the motor vehicle (including GST), the trade-in will be GST-free under the second of the non-commercial rules.

How do you work out the purchase price of a motor vehicle?

For GST purposes, the following amounts are included in the purchase price of a motor vehicle:

- the original cost of the vehicle (including GST and any luxury car tax [LCT]) - this amount is not reduced by the price of a trade-in
- the cost of optional extras (including GST)
- the cost of any other modifications made at the time of purchase or at a subsequent time (including GST)
- the cost of delivery (including GST).

The following amounts are not included in the purchase price of a motor vehicle:

- stamp duty
- motor vehicle registration fees
- compulsory third-party insurance.

You include GST in the total purchase price of the motor vehicle even if you claim a GST credit for the GST you paid when you purchased it.

Example

Caring People, a GST-registered endorsed charity, purchased a bus for transporting clients in 2003. Caring People paid \$55,810 for the bus.

Costs relating to the vehicle purchase (including GST)

Bus	\$43,000
Delivery fee	\$2,000
Air conditioning	\$7,000
Total	\$52,000

Costs relating to other transactions

Registration fee	\$700
Compulsory third-party insurance premium	\$1,110
Stamp duty	\$2,000
Total	\$3,810

In 2005, Caring People decided to trade in the old bus and purchase a new bus from XYZ Autos (a vehicle dealership).

In order to work out if the trade-in of the old bus is GST-free, Caring People must work out the amount it paid for the old bus. If the trade-in price offered by XYZ Autos is less than 75% of the amount paid to purchase the old bus, the trade-in is GST-free.

Caring People calculates the amount paid to purchase the old bus as follows:

Bus	\$43,000
Delivery	\$2,000
Air conditioning	\$7,000
Total amount paid	\$52,000

The registration fee, insurance premium and stamp duty are not included.

If XYZ Autos and Caring People agree to a trade-in price of less than \$39,000 (75% of the purchase price) for the old bus, the trade-in is GST-free.

If XYZ Autos and Caring People agree to a trade-in price of \$39,000 or more, the trade-in is subject to GST. This means that Caring People must pay GST of one-eleventh of the trade-in price and XYZ Autos will be entitled to claim a GST credit for the GST included in the trade-in price of the old bus.

What if you lease the vehicle before you purchase it?

If you lease a motor vehicle before purchasing it, your lease payments are not included in the total purchase price of the vehicle.

The total purchase price of the vehicle is the residual value under the lease plus any purchase-related costs, not including any previously paid lease payments.

What if you purchase the vehicle under a hire purchase agreement?

If you purchase a vehicle under a hire purchase agreement, the total purchase price is either the:

- total of the hire purchase payments you made under the agreement (if the interest charge was not separately identified and disclosed to you on the hire purchase agreement)
- price of the vehicle (if the interest charge was separately identified and disclosed to you).

When do you issue a tax invoice for a motor vehicle you trade in?

GST-free trade-ins

If you and the dealer agree on a trade-in price that is less than 75% of the price you originally paid for the vehicle, you do not have to issue a tax invoice for the trade-in and the dealer is not entitled to claim a GST credit.

For record keeping purposes, you may issue an invoice that clearly shows the trade-in does not include GST.

Trade-ins subject to GST

If the trade-in price is 75% or more than the price you originally paid to purchase the vehicle, the trade-in will be subject to GST. The dealer may ask you to issue a tax invoice showing the price of the trade-in (as agreed by you and the dealer). If so, you must issue the tax invoice within 28 days from the day the dealer asks for it.

Sometimes a dealer may ask you if they can issue a recipient created tax invoice (RCTI). An RCTI is an invoice that the dealer issues to you for the vehicle you have traded in. A dealer can issue an RCTI only if both parties are registered for GST, the trade-in is subject to GST and you have agreed in writing for them to issue an RCTI to you. The agreement must be either in a separate written agreement specifying the supplies to which each agreement relates or embedded in the tax invoices they issue.

If the dealer issues you with an RCTI, you must:

- not issue a tax invoice to the dealer for the trade-in
- pay to us the GST shown on the RCTI.

If you do not quote your Australian business number (ABN) when you trade-in a motor vehicle, the dealer must withhold 46.5% of the value of the trade-in, unless you can prove to the dealer that you are exempt from income tax.

What if you sell the vehicle at auction?

If you sell a motor vehicle at auction and the successful bid is less than 75% of the amount you paid to purchase the vehicle, the sale will be GST-free.

You should inform the auctioneer before the auction that the sale may be GST-free under the non-commercial rules, otherwise the successful bidder may expect you to provide a valid tax invoice clearly showing the GST included in the price of the vehicle. There may also be misunderstandings about GST credit entitlements once the auction is concluded.

If the successful bid is 75% or more of the amount you paid to purchase the vehicle, the sale will be subject to GST. You must issue the successful bidder with a valid tax invoice or instruct the auctioneer to issue a tax invoice on your behalf.

What if you discover an error before lodging your activity statement?

If you treated a GST-free trade-in as a taxable trade-in and you discover your error **before** including the trade-in price at **G1** on your activity statement, you can correct the error by:

- advising the dealer that the sale was not subject to GST
- cancelling the tax invoice you issued to the dealer.

The dealer may ask you to refund the GST included in the trade-in price of the vehicle.

Even though you are not required to issue a tax invoice for a GST-free trade-in, you may issue a new invoice (not a tax invoice) or receipt to the dealer that clearly shows the trade-in was GST-free. This will allow the dealer to make the necessary adjustments without facing penalties.

What if you discover an error after lodging your activity statement?

If you treated a GST-free trade-in as a taxable trade-in and you have already lodged your activity statement and paid the GST to us, you and the dealer may choose not to reverse the transaction. This will be possible only if:

- you are both registered for GST
- the dealer has claimed a GST credit for the trade-in
- you have paid the GST to us
- you both ensure that any future motor vehicle trade-ins are treated correctly for GST purposes.

You cannot seek a refund of the GST you have paid to us in these circumstances.

Alternatively, if you want to fix the error and seek a refund of the GST incorrectly paid, you should seek advice from us as refunds of overpaid GST will generally not be made where non-taxable sales have been incorrectly treated as taxable and the transaction is between registered parties.

Find out more

- [Correcting GST errors](#)
- *MT 2010/1 Miscellaneous tax: restrictions on GST refunds under section 105-65 of Schedule 1 to the Taxation Administration Act 1953.*

Will you be penalised if you make an error?

You may incur penalties for making false or misleading statements or incorrectly keeping records. This includes knowingly issuing tax invoices to dealers showing a GST amount where the trade-in is GST-free.

Find out more

- Our approach to record keeping and penalties

Checklist for trading in your motor vehicle

Before you go to the dealer:

- Work out the amount paid to purchase your existing vehicle.
- Ensure you have the paperwork to show the amount paid (for example, a purchase invoice).
- Calculate 75% of the amount paid to purchase the vehicle.


At the dealership:

Have you and the dealer agreed to a trade-in price that is less than 75% of the amount you paid to purchase the vehicle?

- Yes – explain to the dealer that as the trade-in will be a GST-free sale, you are **not** required to supply a tax invoice and the dealer is not entitled to claim a GST credit.
- No – the trade-in will be subject to GST and the dealer may request that you issue a tax invoice within 28 days. The dealer will be entitled to claim a GST credit. Under some circumstances, the dealer may issue you with a RCTI (for more information – see [GST and motor vehicles](#)).

More information

Find out more

- [GSTD 2001/2](#)  *Goods and services tax: is the sale of goods by a lessor on expiry of a lease agreement a separate supply to the lease of the goods?*
- How we can help

QC 17773

Encouraging not-for-profit participation in the tax system

We help NFPs to participate in the tax systems and meet their obligations. We support NFPs that do the right thing and are committed to deter the dishonest minority.

Last updated 3 December 2021

We have an obligation to the Australian community to ensure not-for-profit (NFP) organisations understand and participate in the tax and super systems, including their entitlement to tax concessions.

We support those who do the right thing. We're also committed to help organisations to meet their tax obligations and deter the small number of organisations that either:

- intentionally use tax concessions to avoid their tax and super obligations
- claim refunds or other payments they aren't entitled to.

If you are new to tax for NFP, visit [Getting started](#).

What attracts our attention

We publish information on the behaviours, characteristics and tax issues of NFP organisations that attract our attention to:

- help you get things right
- be transparent in our dealings with you.

There are certain behaviours and activities that alert us to possible misuse of tax concessions in the tax and super systems.

Operating for purpose

Situations that attract our attention include:

- not applying income and assets solely for the purpose for which the organisation is established (private benefits to individuals or distributing assets to ineligible entities when winding up)
- not meeting eligibility requirements for tax concession and deductible gift recipient (DGR) endorsement
- failing to register, lodge on time, report correctly or pay debts for GST, fringe benefits tax (FBT), pay as you go (PAYG) withholding and super obligations.

Private ancillary funds

Private ancillary funds must comply with the *Taxation Administration (Private Ancillary Fund) Guidelines 2019* and particular focus is applied to:

- minimum annual distributions
- undervaluing donations
- non-arm's length transactions
- borrowing assets.

Self-assessing income tax exempt not-for-profits

Situations that attract our attention include:

- incorrectly self-assessing income tax exempt status
- not meeting the requirements of an exempt category.

Refund of franking credits

We focus on:

- ineligible entities claiming refund of franking credits
- overclaiming refund of franking credits.

Taxable not-for-profit entities

We focus on the mutuality principal – incorrectly classifying member and non-member income and expenses which may result in an understatement of assessable income.

How we detect and deal with those who don't do the right thing

We use various sources of information and we undertake a range of activities to detect and deal with organisations that do not meet their tax and super obligations.

We may also receive information about tax avoidance from the community and from other agencies (including agencies of states and territories). Refer to **Making a tip off** and if you have any concerns about organisation, see **Report fraud, phoenix, tax evasion shadow economy activity, or unpaid super**.

We have a range of options to assist you in meeting your organisation's tax and superannuation obligations. This includes providing advice and guidance and tailored support.

Where we have concerns about a particular issue or behaviour, we may:

- require your organisation to provide us with additional information
- undertake a review or audit.

In more serious instances, we also have the power to:

- revoke your entitlement to tax concessions
- raise tax liabilities, apply interest to unpaid liabilities and impose administrative penalties.

For more information, refer to:

- **Taxpayers' charter**
- **Interest and penalties**

Voluntary disclosure

We encourage you to undertake an annual review of your NFP organisation's status, or when there has been a significant change to your purpose or activities.

The information you provide in your tax return and activity statements must be true and correct. If you have made an honest mistake or you have omitted information, we encourage you to make a voluntary disclosure.

To make a voluntary disclosure about:

- your entitlement to tax concessions, DGR status or compliance with the ancillary fund guidelines phone us on **1300 130 248**
- other tax types such as income tax, GST, PAYG and FBT see [How to make a voluntary disclosure](#).

For more information, refer to:

- [Self-governance checklist for not-for-profit organisations](#)
- [Not-for-profit self-review](#)
- [Voluntary disclosures](#)

QC 51300

Review your TCC endorsement

If your organisation is endorsed as a tax concession charity (TCC), you must inform us in writing if your organisation stops being entitled to endorsement.

Last updated 11 May 2022

We recommend that all income tax exempt organisations self-review their tax-exempt status annually, including your charity's entitlement to endorsement as a tax concession charity (TCC). You should also review tax-exempt status when there is a change in your charity's structure, purposes or operations.

If no longer entitled

If your charity is no longer entitled to endorsement, you must notify us. Not notifying us may result in prosecution.

If the ACNC revokes your organisation's registration as a charity, you will no longer be entitled to endorsement as a tax concession charity. The ACNC will inform us that your organisation is no longer registered, so you are not required to tell us again.

We provide a worksheet to help you self-review whether your organisation is still entitled to endorsement as an income tax exempt

charity. This can be downloaded at [Endorsement review worksheet for income tax exempt charities](#).

For a new copy of your endorsement notice, phone our NFP Premium Advice service on **1300 130 248**.

When we review

We regularly review endorsed charities to establish whether your charity is entitled to endorsement.

We may request that you provide information and documents that are relevant to your charity's entitlement to endorsement. While you must comply with this request, you will be given at least 28 days to provide the required information and documents. Not complying can lead to endorsement being revoked and to prosecution.

We may revoke your charity's endorsement if it:

- is not entitled to endorsement
- has not provided information or a relevant document within the time specified by us.

We will provide written notice of the revocation. The revocation has effect from a date specified by us and the date may be retrospective.

If your charity is dissatisfied with the revocation of endorsement to access charity tax concessions, it can lodge an objection against the revocation. This must be done in writing, giving the grounds for the objection.

QC 46211

Review your DGR endorsement

If your organisation is endorsed as a DGR, you must inform us in writing if your organisation stops being entitled to endorsement. This means you need to undertake regular reviews of your endorsement status. We have a worksheet to help DGRs review their status.

Last updated 19 June 2017

We recommend that you regularly review your DGR to ensure that it continues to operate for the purposes for which it was granted status as a DGR.

The law does not require any particular intervals between self-reviews, but we recommend a yearly review. There should also be a review when there is a change in your organisation's structure or operations.

Endorsed DGRs

Endorsed DGRs must tell us if they cease to be entitled to endorsement. You may be prosecuted if you don't notify us of the loss of entitlement to an endorsement.

Things that can affect an entitlement to be endorsed as a DGR are:

- changes to purpose and operations
- maintaining a gift fund
- the 'in Australia' requirement
- the receipts for gifts or deductible contributions your organisation issues.

This obligation means you need to regularly review your organisation's status.

To help you self-review, we have two worksheets:

- **Worksheet 1: review of a DGR endorsed as a whole**
- **Worksheet 2: review of a DGR endorsed for the operation of a fund, authority or institution it owns or includes.**

Upon completion of your review, if you find your organisation is no longer entitled to endorsement, you must tell the ATO. You must do this before entitlement ceases or as soon as practicable afterwards.

If your organisation ceases to be entitled because it no longer has an ABN or is no longer registered with the ACNC, you do not have to tell us.

If you have gone through the worksheet and find your organisation is entitled, you do not have to contact us and your organisation's status

continues unchanged.

DGRs listed by name

We recommend you regularly review your DGR status to ensure:

- your organisation uses gifts, contributions or money received solely for its principal purpose
- any change in your organisation's principal purpose has not affected your DGR status
- your organisation continues to comply with any rules or conditions made by the Prime Minister or any other minister relating to your organisation being or becoming a DGR.

The authority to remove your organisation's listing as a DGR in the tax law remains with the government and parliament. If you find your organisation no longer meets the conditions for which it was granted DGR status, you must advise the relevant minister in writing.

When we review

As part of our general administration of tax laws, and to ensure only genuine entities or funds receive DGR concessions, we will review DGRs. The reviews help establish if DGRs are in fact entitled to their status as DGRs.

We may ask you to provide information and documents relevant to your organisation's status as a DGR. While you must comply with this request, you will be given at least 28 days to provide the information and documents.

Failure to comply can lead to endorsement being revoked, and to prosecution.

Endorsed DGRs – revoking endorsement

We can revoke a DGR's endorsement if any of the following apply:

- it is not entitled to be endorsed
- it has not provided information or documents within the specified time following our request

- it has not given the specified information on receipts for tax deductible gifts and contributions.

We will provide written notice of the revocation. The revocation has effect from a date we specify and it may be retrospective.

If you are dissatisfied with the revocation of your organisation's DGR endorsement, you can lodge an objection against the revocation. You must send your objection to us in writing, giving the grounds for the objection.

We can review all DGRs, including DGRs listed in the law, to ensure they continue to be eligible to receive deductible gifts and contributions.

We may ask, in writing, that you provide information and documents relevant to your organisation's status as a DGR. While you must comply with this request, you will be given at least 28 days to provide the information and documents.

Failure to comply can lead to penalties and prosecution.

DGRs listed by name – removal of listing

The authority to remove a listed DGR remains with the government and parliament.

We must advise the relevant minister in writing within 28 days if we are satisfied as result of our review of any of the following:

- your organisation fails or ceases to use gifts, contributions or money received solely for its principal purpose
- there is a change in your organisation's principal purpose
- your organisation fails or ceases to comply with any rules or conditions made by the Prime Minister or any other minister relating to your organisation being or becoming a DGR.

Our notice to the relevant minister may only include such information that is relevant to your organisation's DGR status.

The minister may only disclose our information relating to the removal of your organisation's name as a DGR in the tax law.

The government and parliament will then consider whether to continue your organisation's DGR status or amend the tax law to remove your

organisation's name as a DGR.

QC 46218

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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