



A New Tax System (Goods and Services Tax) Recipient Created Tax Invoice Determination RCTI 2005/1

Explanatory Statement

General Outline of determination

This determination allows a seller of reconditioned motor vehicle parts, who receives a worn motor vehicle part in return from a customer, to issue a recipient created tax invoice (RCTI) for a taxable supply of the worn part by the customer. In the process of consultation, at the request of the reconditioned motor vehicle parts industry, the Tax Office undertook to issue a determination to allow the recipient of the worn parts to issue RCTIs when the worn part is returned. The RCTI can only be issued in the specific circumstances outlined in the determination.

This determination is made under subsection 29-70(3) of the *A New Tax System (Goods and Services Tax) Act 1999* and may be cited as the *A New Tax System (Goods and Services Tax) Act 1999* Classes of Recipient Created Tax Invoice Determination RCTI 2005/1.

This determination is a legislative instrument for the purposes of the *Legislative Instruments Act 2003*. It is made by, and is legally binding upon, the Commissioner of Taxation.

Date of effect

This determination commences on 1 July 2005.

What is this determination about?

The determination outlines classes of tax invoices that may be issued by the recipient of a taxable supply.

It states that a seller of reconditioned motor vehicle parts, who is a recipient of a taxable supply by way of the return of a worn motor vehicle part, may issue a tax invoice that belongs to a class of tax invoices for a taxable supply of a worn part where the following circumstances exist:

- the recipient of the worn part is registered for GST,
- the recipient sells a reconditioned part to a customer,
- the recipient of the worn part issues an invoice for the sale of the reconditioned part to a customer that separately itemises a deposit (generally referred to as a 'core deposit') for the supply of the worn part,

- the customer later supplies a worn part to the recipient who pays the 'core deposit' to the customer,
- if the customer does not supply the worn part, the 'core deposit' is retained by the supplier of the reconditioned part,
- the recipient establishes the value of worn parts, and
- the recipient satisfies the requirements set out in Clause 5 of the determination.

What is the effect of this determination?

This determination enables a recipient of a worn motor vehicle part by way of a taxable supply, to issue a RCTI where the requirements of this determination are met. This determination, in conjunction with the fact sheet *GST and the sale of reconditioned parts, NAT 13259*, will ensure that GST is correctly accounted for on the transactions involving a return of a worn part.

Businesses affected by this determination may need to update their accounting systems and software to ensure correct GST treatment.

From 1 July 2005:

- the sellers of reconditioned motor vehicle parts will be given the option to have a valid RCTI agreement in place with the supplier of the worn motor vehicle part in order to claim input tax credits provided they meet requirements of the determination . Otherwise the seller of the reconditioned parts will need to obtain a valid tax invoice from the supplier of the worn motor vehicle part to be able to claim an input tax credit, and
- suppliers of worn parts, where they make a taxable supply, are required to account for GST on the supply of worn parts.

Background

The Tax Office is aware that there has been inconsistent GST treatment within the motor vehicle industry of supplies of reconditioned parts that involve a 'core deposit' and the return of the worn part.

After consultation with the industry the Tax Office has recently issued a fact sheet *GST and the sale of reconditioned parts, NAT 13259*, which clarified the correct GST treatment of 'core deposits' in relation to the sale of reconditioned parts and the return of a worn part.

From 1 July 2005, 'core deposits' will no longer be able to be treated as security deposits for GST purposes, nor will payments for worn parts be treated as adjustments for GST purposes.

The fact sheet details the GST treatment of sales of reconditioned motor vehicle parts where the invoice issued by the supplier itemises a deposit for a worn part the customer sells to the supplier in return.

Where the customer returns a worn part and receives payment of the 'core deposit' it may be a taxable supply by the customer.

This determination allows the seller of the reconditioned parts to issue RCTIs where they acquire worn parts from the customer. This will assist the seller of the reconditioned part and the customer who returns the worn part to correctly meet their GST obligations and will provide consistent treatment of these transactions in the industry.

Consultation

The Tax Office has consulted with industry associations involved in the reconditioned motor vehicle parts industry including the Australian Automotive Aftermarket Association (AAAA), the Motor Trades Association of Australia (MTAA) and the Federal Chamber of Automotive Industries (FCAI). The Tax Office has also consulted with individual suppliers of reconditioned motor vehicle parts.

The Tax Office prepared a draft copy of the proposed fact sheet which was given to the industry associations on 28 January 2005 for discussion prior to preparation of the final fact sheet.

The draft fact sheet was further revised as a result of the issues raised by the industry groups and a copy of the updated fact sheet was given to the AAAA on 8 April 2005 for comment.

After considering all comments, the Tax Office issued the final fact sheet *GST and the sale of reconditioned parts*, NAT 13259, on 11 April 2005 which deals with all their concerns. In the process of consultation, at the request of the industry participants and in line with the enacted legislation, the Tax Office undertook to issue a determination to allow the recipient of worn parts to issue RCTIs when the worn part is returned.

Commissioner of Taxation

21 June 2005

Related Rulings/Determinations:

GSTR 2000/10

Subject references:

GST

Taxable supply

Recipient created tax invoice

Security deposit

Creditable acquisition

Reconditioned part

Motor vehicle

Legislative references:

A New Tax System (Goods and Services Tax) Act 1999;

Section 27-70

Subsection 29-70(3)

Division 99

Section 9-5

Section 29-5

Other references:

NAT 13259

ATO references

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