GSTR 1999/D4 - Goods and Services Tax: Adjustments for Bad Debts

This cover sheet is provided for information only. It does not form part of *GSTR 1999/D4 - Goods and Services Tax: Adjustments for Bad Debts*

There is an Erratum notice for this document.
This document has been finalised.

Generated on: 27 November 2026, 04:59:03 AM

Draft Goods and Services Tax Ruling
Goods and Services Tax: Adjustments for Bad Debts

Contents	Para
What this Ruling is about	**1**
Date of Effect	**8**
Background	**9**
Ruling	**14**
Explanations	**31**
Definitions	**80**
Your comments	**81**
Detailed Contents List	**82**

Preamble

This document is a draft for industry and professional comment. As such, it represents the preliminary, though considered, views of the Australian Taxation Office. This draft may not be relied on by taxation officers, taxpayers and practitioners, as it is not a ruling or advice in terms of section 37 of the ***Taxation Administration Act 1953****. When officially released it will be a public ruling for the purposes of section 37 and may be relied upon by any person to whom it applies.*

What this Ruling is about

1. This Ruling describes the circumstances in which adjustments arise for taxable supplies or creditable acquisitions where a debt is written off as bad or is overdue[1] for 12 months or more. In particular, the Ruling explains the requirements for making adjustments to net amounts.

2. These requirements are set out in Division 21 and Division 136[2] of *A New Tax System (Goods and Services Tax) Act 1999* ('GST Act').

3. All legislative references in this Ruling are to the GST Act unless otherwise stated.

Entities and arrangements to which this Ruling applies

4. This Ruling applies if:

- you have made a taxable supply;
- you have attributed the GST payable on the supply in a Business Activity Statement (BAS)[3];

[1] There is a proposed amendment in *A New Tax System (Indirect Tax and Consequential Amendments) Bill (No2)* 1999 to substitute the word "due" with "overdue". This Bill, as of 13 December 1999, is awaiting Royal Assent.
[2] This is a proposed new Division in *A New Tax System (Indirect Tax and Consequential Amendments) Bill (No2)* 1999. This Bill, as of 13 December 1999, is awaiting Royal Assent.
[3] Your GST return is part of your Business Activity Statement.

- you have not received the whole or part of the consideration; and
- you have written off as a bad debt the whole or part of the debt, or the whole or part of the debt has been overdue for 12 months or more.

5. The bad debts adjustment provisions outlined in Division 21 do not apply to entities accounting for GST on a cash basis.[4] However, there are special provisions that apply to adjustments for bad debts when you start to account on a cash basis or cease to account on a cash basis.[5] This Ruling does not consider these provisions.

6. The provisions of Division 21 do not apply if you have a bad debt arising from a gambling supply. Bad debts arising from a gambling supply are dealt with in Division 126. This Ruling does not consider this Division.

7. If you have a bad debt relating to a taxable supply of real property under the margin scheme, Division 21 will apply. However, the calculation of the adjustment is subject to a special rule in section 75-25, discussed in paragraphs 30 and 75 to 77 of this Ruling.

Date of effect

8. This Ruling, when finalised, will apply on and from 8 July 1999 (the date of Royal Assent to the GST Legislation).

Background

9. If you account for GST other than on a cash basis, you may attribute the GST on the taxable supply before you receive any or all of the consideration for the supply. If you subsequently:

- write off as bad some or all of the consideration you were due to receive for the supply; or
- the whole or part of the debt has been overdue for 12 months or more,

you will have attributed the GST but will not have received an amount for that GST from the recipient of the supply.

10. Conversely, if you make a creditable acquisition, you may attribute the input tax credit before you pay any or all of the

[4] Subsection 21-5(2)
[5] Sections 159-25 and 159-15

consideration for the acquisition. If the whole or part of the debt is subsequently written off as bad by the supplier, or has been overdue for 12 months or more, you will have attributed the input tax credit but have not paid an amount equivalent to that input tax credit to the supplier.

11. If the circumstances outlined in paragraph 9 apply, you will have attributed too much GST. If the circumstances described at paragraph 10 apply, you will have claimed too much input tax credit. Consequently, in either of these circumstances you need to make an adjustment to your net amount to reflect the correct amount.

12. If you make a taxable supply and the related debt is subsequently written off as bad, or the debt has been overdue for 12 months or more, you have a *decreasing* adjustment to your net amount. However, if you subsequently recover whole or part of the debt for which you previously had a decreasing adjustment, you will have an i*ncreasing* adjustment to your net amount.

13. If you make a creditable acquisition and the related debt is subsequently written off as bad, or the debt has been overdue for 12 months or more, you have an *increasing* adjustment to your net amount. However, if you subsequently repay some or all of the debt for which you previously had an increasing adjustment, you have a *decreasing* adjustment to your net amount.

Ruling

Entities making taxable supplies

GST must have been attributed

14. A decreasing adjustment for a bad debt will arise in respect of a supply if you attributed the GST on the supply in your BAS in a previous tax period.

15. In addition, if the GST on a supply is attributable to a tax period and you write off the related debt in the same tax period, you still make an adjustment. This means that you account for the GST payable and the bad debt adjustment separately on your BAS.

Attribution of adjustment

16. You attribute an adjustment to the tax period in which you become aware of it.[6] Accordingly, you have a decreasing adjustment in the tax period in which the debt is written off, or, if the debt has not

[6] Subsection 29-20(1)

been written off, in the tax period when the debt has been overdue for 12 months.

17. If a debt, or part of a debt, is recovered for which you previously had a decreasing adjustment, you attribute the corresponding increasing adjustment to the tax period in which the debt is recovered.

Partly taxable supplies

18. If the supply you make is only partly taxable, the amount of the decreasing adjustment is reduced to the proportion of the supply that is taxable.

19. If you recover an amount that relates to a supply that was only partly taxable, and for which you previously had a decreasing adjustment as described in paragraph 18, you have an increasing adjustment. The increasing adjustment is calculated on the amount that relates to the part of the supply that was a taxable supply.

Entities making creditable acquisitions

Input tax credit must have been attributed

20. An increasing adjustment for a bad debt will arise in respect of a creditable acquisition if you attributed the input tax credit on the acquisition in your BAS in a previous tax period.

21. In addition, if the input tax credit on a creditable acquisition is attributable to a tax period and you are aware that the related debt is written off in the same period, you still make an adjustment. This means that you account for the input tax credit and the bad debt adjustment separately on your BAS.

Attribution of adjustment

22. You attribute an adjustment to the tax period in which you become aware of it. Accordingly, you have an increasing adjustment in the tax period in which you become aware that the debt is written off. Alternatively, if you are not aware that the debt has been written off, you make the increasing adjustment in the tax period when the debt has been overdue for 12 months.

23. If you pay a debt or part of a debt for which you previously had an increasing adjustment, you attribute the corresponding decreasing adjustment to the tax period in which the debt is paid off.

Partly creditable acquisitions

24. If you make an acquisition that is only partly for a creditable purpose, or for which you provide only part of the consideration, the amount of the increasing adjustment is reduced to take into account the extent of creditable purpose or consideration.

25. If you subsequently pay an amount that relates to an acquisition that was only partly for a creditable purpose, and for which you previously had an increasing adjustment as described in paragraph 24, you have a decreasing adjustment. The decreasing adjustment is calculated by taking into account the extent of creditable purpose or consideration.

26. If you have a bad debt relating to an acquisition of a motor vehicle for which a reduced input tax credit applied, the amount of the increasing adjustment is also reduced.[7]

When is a debt a "bad debt"

27. Whether a debt is bad is ultimately a question of fact to be determined from all of the relevant circumstances. If you make a bona fide commercial decision that the debt is unlikely to be recovered, we will accept that the debt is bad for the purposes of Division 21.

28. A debt will be written off if there is some form of written record which evidences the decision by you to write off the debt from your accounts. The mere fact of making a decreasing adjustment in your BAS does not mean the debt has been written off.

29. A debt must still be owing to the entity which made the taxable supply for that entity to be able to write off the debt and have a decreasing adjustment.

Margin scheme

30. If you have a bad debt relating to a supply that you made under the margin scheme, the bad debt adjustment cannot exceed 1/11 of the margin for the supply.

[7] This aspect is discussed at paragraphs 70 to 72 of this Ruling.

Explanations (this forms part of the ruling)

Entities making taxable supplies

31. An adjustment arises if you make a taxable supply and the debt relating to the supply is subsequently written off as bad or has been overdue for 12 months or more.

When do you have an adjustment?

32. You have a *decreasing* adjustment if the following criteria are met:

- you have made a taxable supply;
- you have attributed the GST to a tax period;
- you have not received all or part of the consideration; and
- you have written off the debt or the debt has been overdue for 12 months or more.

You have made a taxable supply

33. If you make taxable supplies, you include GST in the price of those supplies and attribute that GST to the relevant tax period. However, no GST is payable on supplies that are wholly GST-free or wholly input taxed and consequently you cannot make adjustments under Division 21 for those supplies.

Attribution

34. The GST relating to the supply must be attributed to a tax period. There may be cases where the GST is attributable to the *same* tax period as the period in which the debt is written off as bad. In these situations, you account for the amount of GST payable on the supply and the amount of the adjustment separately on your BAS. The amounts are not to be offset against each other.

Consideration not received

35. For you to have a decreasing adjustment, it is necessary that you have not received whole or part of the consideration for the taxable supply. The decreasing adjustment is calculated on the consideration that has not been received.

Writing off the debt as bad or debt overdue for 12 months or more

36. You must have written off whole or part of the debt as bad. Alternatively, the whole or part of the debt has been overdue for 12 months or more.

When a debt is bad

37. In order to make a decreasing adjustment where the debt has been overdue for less than 12 months, the debt must be bad. This requires you to make a bona fide assessment, based on sound commercial considerations, that the debt is bad.

38. Sound commercial judgement cannot be exercised in relation to determining that a debt is bad if there is still a real and continuing dispute in relation to the sum.[8]

39. The Commissioner's views on when a debt may be considered to have become bad for income tax purposes are set out in Taxation Ruling TR92/18.[9] These views also apply to when a debt may be considered to be bad for the purposes of Division 21. Whether a debt is bad depends upon an objective consideration of all the relevant circumstances of each case.

40. The main circumstances are set out in paragraphs 26 to 33 in TR 92/18. Some of the relevant factors include:

- the debtor, if incorporated, is in liquidation with insufficient funds to pay the debt;
- the supplier is unable to trace the debtor; and
- an objective examination of all the facts indicates that there is little or no likelihood of recovering the debt.

41. To establish that there is little or no likelihood of recovering the debt, a supplier should take certain steps to recover the debt instead of simply writing it off as bad. The appropriate steps undertaken will vary according to the size of the debt and the resources available to the creditor to pursue the debt. The steps include:

- issuing reminder notices and attempting telephone/e-mail contact;
- issuing a formal demand notice;
- issuing a summons;
- ceasing the calculation and charging of interest and closing the account; and

[8] Case 45/93 93 ATC 486; AAT Case 9093 (1993) 27 ATR 1022
[9] TR 92/18 Income tax : bad debts (17 December 1992)

- allowing a reasonable period to elapse since the original due date for payment of the debt.

42. The debt must be more than merely doubtful. If, for example, you have a 90-day credit period and the debt is still outstanding at the end of that period, the debt will not (in the absence of other factors) be accepted as bad.

Writing off a bad debt

43. Before you are entitled to make a decreasing adjustment under Division 21 for a debt that has not been overdue for 12 months or more, the debt must be written off.

44. Writing off will generally be evidenced if there is some form of written record to that effect. The debt may, for example, be written off by journal entries in the books of account.

45. Under the bad debt provisions of the income tax legislation, a debt cannot be written off after it has been settled, compromised or otherwise extinguished.[10] In these situations, there is no longer a debt in existence that may be written off.[11]

46. These same principles apply to Division 21. For example, if you settle a debt before writing it off, or before the 12 months have elapsed, there will be no debt in existence for the application of Division 21.[12]

47. Similarly, if you assign the debt to another party, the provisions of Division 21 cannot operate.[13] Under Division 21 only the entity that makes the supply can make the adjustment for any bad debt relating to that supply. For example, if a debt is assigned, the assignee has no entitlement to a bad debt adjustment under Division 21.

When do you attribute your adjustments?

48. You attribute an adjustment to the period in which you become aware of it. Therefore, you attribute the decreasing adjustment to the

---

[10] G.E. Crane Sales Pty Ltd v FCof T (1971)126 CLR 177; 71 ATC 4268; (1971) 2 ATR 692

[11] TR 92/18, paragraph 38

[12] The settling or compromising of a debt may be treated as an adjustment event for the purposes of paragraph 19-10(1)(b) which deals with adjustments for changes in consideration.

[13] There is case authority from New Zealand on the GST implications of debt factoring. In *Case T27 (1997) 18 NZTC 8,188*, it was held that the bad debt provision (in the New Zealand GST legislation) was inapplicable to the situation under review, where the supplier factored its debts. At the time of factoring the debts were still good.

tax period in which you write off the debt. If the debt has been overdue for 12 months or more, you attribute the decreasing adjustment to the tax period in which the debt becomes 12 months overdue.

Example

49. Luigi sells equipment worth $550 (including GST) to Bob, and issues the invoice, on 15 March 2001. Luigi does not account on a cash basis and uses 3 monthly tax periods. Luigi attributes the GST on the supply to the tax period ending 31 March 2001. The invoice was payable on or before 15 April 2001. The debt becomes overdue immediately after 15 April 2001. On 15 April 2002 the debt still has not been paid or written off. In this case Luigi has a decreasing adjustment in the tax period ending 30 June 2002, as this is the tax period in which the debt was overdue for 12 months or more.

The amount of the decreasing adjustment

50. For a wholly taxable supply, the amount of the decreasing adjustment is 1/11 of the amount that has been written off as bad, or is overdue for 12 months or more.

Example

51. Continuing with the example from above, Luigi has a decreasing adjustment in the tax period ending 30 June 2002 of $50 ($550 x 1/11).

52. However, if the supply you made was partly taxable, the decreasing adjustment is to be calculated according to the following formula:

full adjustment x taxable proportion[14]

Where:

- 'full adjustment' is what would be the amount of the adjustment worked out under sections 21-5 or 21-10 (that is, 1/11 of the amount written off or overdue for 12 months or more; or 1/11 of the amount subsequently recovered).
- 'taxable proportion' is the proportion of the value of the supply (worked out as if it were solely a taxable supply) that the taxable supply represents.

[14] Section 136-5. This section is in the new Division 136 proposed in *A New Tax System (Indirect Tax and Consequential Amendments) Bill (No. 2) 1999.*

Example

53. ABC Pty Ltd supplies breakfast cereals in plastic containers intended for re-use. These supplies are partly taxable and partly GST-free.[15] ABC Pty Ltd determines that the proportion of the value of the supply that the taxable supply represents is 40%. ABC Pty Ltd makes a supply to a retailer for $660. The related debt is subsequently treated as bad. ABC Pty Ltd makes a decreasing adjustment based on the formula:

full adjustment x taxable proportion

($660 x 1/11) x 40% = $24.00

Adjustment not to exceed 1/11 of consideration

54. Under Division 21, the adjustment is based on 1/11 of the consideration for a supply which is subsequently written off as bad or overdue for 12 months or more and excludes interest.

Increasing adjustment

55. Where you have previously made a decreasing adjustment for a bad debt and subsequently recover the whole or a part of the debt, you account for the amount recovered. You make an increasing adjustment to your net amount equivalent to 1/11 of the amount recovered. The increasing adjustment is made in the tax period in which the debt is recovered.

56. If the amount that is recovered relates to a supply that was partly taxable, the increasing adjustment is calculated according to the formula outlined at paragraph 52.

Entities making acquisitions

57. An adjustment arises if you make a creditable acquisition and the debt relating to the acquisition is subsequently written off as bad or has been overdue for 12 months or more.

[15] Subsection 38-6(2) provides that packaging of food is only GST-free to the extent that the packaging is necessary for the supply of food *and* is packaging of a kind in which food of that kind is normally supplied. Packaging that is more than is usual and necessary is taxable.

When do you have an adjustment?

58. You have an *increasing* adjustment if the following criteria are met:

- you have made a creditable acquisition;
- you have attributed an input tax credit to a tax period;
- the whole or part of the consideration for the acquisition has not been paid; and
- the debt has either been written off as bad or has been overdue for 12 months or more.

Creditable acquisition

59. A creditable acquisition is an acquisition you use in your enterprise to make taxable supplies or GST-free supplies. Acquisitions that relate solely to making input taxed supplies, or that are solely of a private or domestic nature, cannot be subject to increasing adjustments under Division 21. Acquisitions of this nature are not creditable acquisitions as they were not made for a creditable purpose.

Attribution

60. The input tax credit relating to the acquisition must be attributed to a tax period. There may be cases where the input tax credit is attributable to the *same* tax period in which the debt is written off as bad. In these situations, if you are aware that the debt has been written off as bad, you account for the amount of input tax credit on the acquisition and the amount of the adjustment separately in your BAS. The amounts are not to be offset against each other.

Consideration not paid

61. For you to have an increasing adjustment, some or all of the consideration payable on the acquisition must not have been provided. The increasing adjustment is calculated on the consideration that has not been provided.

When do you attribute your adjustment?

62. You attribute an adjustment to the period you become aware of it. Therefore, if you are aware that a debt has been written off, you attribute the increasing adjustment to the tax period in which you are aware that it has been written off. If the debt has been overdue for 12

months or more, you attribute the increasing adjustment to the tax period in which the debt becomes 12 months overdue.

Example

63. Continuing with the example from paragraph 49, Bob will have an increasing adjustment corresponding with Luigi's decreasing adjustment. Bob will attribute the increasing adjustment to the tax period in which the debt has been overdue for 12 months.

64. The invoice was payable by Bob on 15 April 2001 and becomes overdue immediately after that date. Bob makes the increasing adjustment in the tax period ending 30 June 2002, as this is the tax period in which the debt was overdue for 12 months or more.

The amount of the increasing adjustment

65. If the creditable acquisition is wholly for a creditable purpose, the increasing adjustment is 1/11 of the amount written off or 1/11 of the amount that remains overdue after 12 months.

66. However, if you make an acquisition that is partly creditable, your increasing adjustment is calculated according to the following formula:

full adjustment x extent of creditable purpose x extent of consideration[16]

Where:

- 'full adjustment' is what would be the amount of the adjustment under section 21-15 or 21-20 (that is 1/11 of the amount written off or overdue for 12 months or more; or 1/11 of the amount recovered).
- 'extent of creditable purpose' is the extent of creditable purpose last used to work out the amount of input tax credit for the acquisition, expressed as a percentage.[17]
- 'extent of consideration' is the extent to which you provide, or are liable to provide, the consideration for the acquisition, expressed as a percentage of the total consideration for the acquisition.

[16] Section 136-10
[17] If there has been an adjustment under Division 129 for the acquisition, the extent of creditable purpose is the extent of creditable purpose last used to work out the amount of the adjustment under Division 129 in relation to the acquisition (expressed as a percentage).

Example

67. Isabella operates a gardening business and is registered for GST. She does not account for GST using the cash basis. She acquires a computer for $3,300. The computer is used 60% for business purposes and 40% for private purposes. Isabella's extent of creditable purpose is 60%. Therefore, she claims an input tax credit of $180 ($3,300 x 1/11 x 60%). She pays $2200 of the debt and subsequently experiences financial difficulties.

68. The supplier writes off $1100 of the debt, advises Isabella, and makes a decreasing adjustment of $100 ($1100 x 1/11). Isabella makes an increasing adjustment according to the formula:

full adjustment x extent of creditable purpose x extent of consideration

$1100 x 1/11 x 60% x 100% = $60

69. If you have an adjustment for a bad debt in relation to a creditable acquisition of a *reduced credit acquisition*[18] that was not partly creditable (that is, it is wholly for a creditable purpose because of Division 70), the amount of the adjustment is calculated according to the following formula:

full adjustment x percentage credit reduction x extent of consideration[19]

Where:

- 'full adjustment' is what would be the amount of the adjustment worked out under section 21-15 or 21-20.
- 'percentage credit reduction' is the reduced input tax credit percentage prescribed for the purposes of subsection 70-5(2) for an acquisition of that kind.
- 'extent of consideration' is the extent to which you provide, or are liable to provide, the consideration, expressed as a percentage of the total consideration for the acquisition.

Phasing in input tax credits for motor vehicles

70. Under section 20 of *A New Tax System (Goods and Services Tax Transition Act) 1999* ('Transition Act') input tax credits for certain types of motor vehicles are to be phased in over a two year

[18] Division 70 allows a reduced input tax credit for certain acquisitions made by suppliers of financial services.
[19] Subsection 136-10 (2)

period.[20] In the first year of operation (1 July 2000 – 30 June 2001), no input tax credits will be allowed for the specified vehicles. In the second year (1 July 2001 – 30 June 2002), the amount of the input tax credit is reduced by 50%.

71. If you acquire a motor vehicle for which you are not entitled to an input tax credit under section 20 of the Transition Act, you cannot have a bad debt adjustment.

72. However, if you are entitled to a reduced input tax credit of 50% under section 20 of the Transition Act, a bad debt adjustment could apply. If an adjustment under Division 21 does arise, the amount of the adjustment is reduced by 50%. The reduction to the amount of the adjustment must occur prior to applying the formula outlined at paragraph 66 (if it is applicable).

Decreasing adjustment

73. Where you have previously made an increasing adjustment for a bad debt and subsequently pay to the supplier the whole or part of the amount written off or overdue for 12 months or more, you account for the amount paid. You make a decreasing adjustment to your net amount equivalent to 1/11 of the amount paid. The decreasing adjustment is made in the tax period in which the amount is paid.

74. If the payment relates to an acquisition which was partly creditable, the decreasing adjustment is calculated according to the formula outlined at paragraph 66.

Application of Division 21 to supplies of freehold interests under Division 75 (the "margin scheme")

75. For supplies of freehold interests in land, stratum units and long-term leases, you may choose, under Division 75, to apply the margin scheme for working out the amount of GST on the supply.

76. Under the margin scheme, you calculate GST on the supply as 1/11 of your margin on the sale of the property. The margin is calculated as your tax inclusive sale price less your original purchase price. However, if you held the property at 1 July 2000, your margin is the sale price less the value of the real property at the specified date[21].

---

[20] The vehicles subject to the phasing in rules are motor vehicles, detachable trailers for heavy prime movers and specialised bodies for motor vehicles (subsection 20(1) *A New Tax System (Goods and Services Tax Transition Act) 1999*.

[21] Subsection 75-10(3) sets out various dates when a valuation is required in the circumstances when property is held prior to 1 July 2000.

77. If you have a bad debt relating to a taxable supply of real property to which you apply the margin scheme, you have an adjustment under Division 21. However if the amount of the adjustment would otherwise exceed 1/11 of the margin for the supply, the amount of the adjustment is limited to 1/11 of the margin for the supply.[22]

Example

78. ABC Pty Ltd, a registered land developer, makes a taxable supply of real property under an instalment contract for $150,000. It held the land at 1 July 2000, when it was valued at $95,000. It chooses to apply the margin scheme and the margin for the supply is $55,000. ABC Pty Ltd subsequently writes off as a bad debt $66,000 associated with the supply. In this case, the amount of the adjustment, calculated under Division 21, is $6,000 (1/11 of $66,000). This amount exceeds 1/11 of the margin for the supply ($5,000). The amount of the adjustment is, therefore, limited to 1/11 of the margin. The decreasing adjustment is $5,000.

79. If you acquire property where GST on the supply was calculated on the margin, the acquisition is not a creditable acquisition. This means you cannot have an increasing adjustment if the debt relating to the supply is subsequently written off as bad or overdue for 12 months or more.[23]

Definitions

80. Terms used in this Ruling have the following meanings:

Attribution

This is the term used in the GST law to describe the way you account for GST payable, input tax credits and adjustments in order to work out your net amount of GST for the tax period. GST payable, input tax credits and adjustments are attributed to tax periods rather than being remitted or refunded, as the case may be, each time a taxable supply, creditable acquisition or adjustment is made.

[22] Section 75-25
[23] Section 75-20

Creditable acquisition

A creditable acquisition is an acquisition you use in your enterprise. You are entitled to an input tax credit for these acquisitions. You make a creditable acquisition if:

- you acquire anything solely or partly for a creditable purpose; and
- the supply of the thing to you is a taxable supply; and
- you provide, or are liable to provide, consideration for the supply; and
- you are registered or required to be registered[24].

Creditable purpose

Creditable purpose is defined in section 11-15 and section 15-10. You acquire a thing for a creditable purpose to the extent it is acquired in carrying on your enterprise. You do not acquire a thing for a creditable purpose to the extent that the acquisition relates to making input taxed supplies or is of a private or domestic nature.

GST-free supplies

GST-free supply means a supply that is GST-free under Division 38. That Division provides that exports and supplies of certain things such as food, health, education, child care, religious services and farm land are GST-free. If a supply is GST-free you do not charge GST on the supply, but you are entitled to input tax credits in respect of things acquired or imported to make the supply.

Input tax credit

This is the credit you are entitled to for the GST included in the price you pay for an acquisition or the GST paid on an importation if it is for use in your enterprise to make taxable or GST-free supplies. The entitlement arises under section 11-20 (about creditable acquisitions) or section 15-15 (about creditable importations).

Input taxed supplies

Input taxed supply means a supply that is input taxed under Division 40. That Division sets out the supplies that are input taxed. They are financial supplies (40-5), residential rent (40-35), residential premises (40-65), certain supplies of precious metals (40-100) and school

[24] Section 11-5

tuckshops and canteens (40-130). If a supply is input taxed you do not charge GST on the supply, but neither are you entitled to input tax credits for anything acquired or imported to make the supply.

Net amount

Your net amount is the difference between your total GST payable and your total input tax credits for a tax period.[25] It can be increased or decreased by adjustments arising in the same tax period. You include your net amount for a tax period on your BAS.

Overdue

A debt is overdue if there has been a failure to discharge the debt, and that failure is a breach of the debtor's obligations in relation to the debt.[26]

Reduced credit acquisition

Reduced credit acquisitions are acquisitions by financial suppliers that give rise to a partial input tax credit. The particular acquisitions that are entitled to a reduced input tax credit are prescribed by regulation.[27]

Taxable supply

Taxable supply has the meaning given by sections 9-5 (the basic definition), 78-30 (about taxable supplies relating to insurance claims), 84-5 (about intangible supplies from offshore) and 105-5 (about supplies by creditors in satisfaction of debts). Section 9-5 provides that:

(i) you make a taxable supply if:

- (a) you make the supply for consideration; and
- (b) the supply is made in the course of furtherance of an enterprise that you carry on; and
- (c) the supply is connected with Australia; and
- (d) you are registered, or required to be registered.

(ii) however, the supply is not a taxable supply to the extent that it is GST-free or input taxed.

---

[25] Section 17-5
[26] This definition is in the proposed amendment to section 195-1 in A New Tax System (Indirect Tax and Consequential Amendments) Bill (No.2) 1999. This Bill, as of 13 December 1999, is awaiting Royal Assent.
[27] Part 4-2 *A New Tax System (Goods and Services Tax) Regulations 1999*

Your comments

81. If you wish to comment on this draft Ruling, please send your comments promptly by **28 January 2000** to:

Contact Officers:	Les McGown
Telephone:	(07) 385 34844
Facsimile	(07) 385 34882
Email	GST-Rulings@ato.gov.au
Address	GST Rulings Unit
	GPO Box 920
	BRISBANE QLD 4001

Detailed contents list

82. Below is a detailed contents list for this Draft Ruling:

	Paragraph
What this Ruling is about	**1**
Entities and arrangements to which this Ruling applies	3
Date of effect	**8**
Background	**9**
Ruling	**14**
Entities making taxable supplies	14
GST must have been attributed	*14*
Attribution of adjustment	*16*
Partly taxable supplies	*18*
Entities making creditable acquisitions	20
Input tax credit must have been attributed	*20*
Attribution of adjustment	*22*
Partly creditable acquisitions	*24*
When is a debt a 'bad debt'?	27
Margin scheme	30
Explanations	**31**

Entities making taxable supplies 31
When do you have an adjustment *32*
You have made a taxable supply *33*
Attribution *34*
Consideration not received *35*
Writing off the debt as bad or debt overdue for 12 months or more *36*
When a debt is bad *37*
Writing off a bad debt *43*
When do you attribute your adjustments *48*
Example *49*
The amount of the decreasing adjustment *50*
Example *51*
Example *53*
Adjustment not to exceed 1/11 of consideration *54*
Increasing adjustment *55*
Entities making acquisitions 57
When do you have an adjustment? *58*
Creditable acquisition *59*
Attribution *60*
Consideration not paid *61*
When do you attribute your adjustment? *62*
Example *63*
The amount of the increasing adjustment *65*
Example *67*
Phasing in input tax credits for motor vehicles *70*
Decreasing adjustment *73*
Application of Division 21 to supplies of freehold interests under Division 75 (the "margin scheme") *75*
Example *78*
Definitions **80**
Your comments **81**

Commissioner of Taxation
15 December 1999

Previous draft:

Not previously issued in draft form

Related Rulings/Determinations:

TR 92/18

Subject references:

- Acquisition
- Activity statement
- Adjustments
- Attribution
- Bad debts
- Business Activity Statement
- Creditable acquisition
- Creditable purpose
- Extent of creditable purpose
- GST
- GST-free
- GST-free supplies
- GST return
- Input tax credits
- Input taxed supplies
- Input taxed
- Margin scheme
- Net amount
- Partly creditable
- Partly taxable
- Private or domestic nature
- Taxable supplies
- Taxable supply

Legislative references:

- ANTS(GST)A99 9-5
- ANTS(GST)A99 11-5
- ANTS(GST)A99 11-15
- ANTS(GST)A99 11-20
- ANTS(GST)A99 15-10
- ANTS(GST)A99 15-15
- ANTS(GST)A99 17-5
- ANTS(GST)A99 19-10
- ANTS(GST)A99 21-5
- ANTS(GST)A99 21-10
- ANTS(GST)A99 21-15
- ANTS(GST)A99 21-20
- ANTS(GST)A99 29-20(1)
- ANTS(GST)A99 Div. 38
- ANTS(GST)A99 38-6(2)
- ANTS(GST)A99 Div. 40
- ANTS(GST)A99 70-5(2)
- ANTS(GST)A99 75-10(3)
- ANTS(GST)A99 75-20
- ANTS(GST)A99 75-25
- ANTS(GST)A99 Div. 126
- ANTS(GST)A99 Div. 129
- ANTS(GST)A99 159-15
- ANTS(GST)A99 159-25
- ANTS(GST)A99 195-1
- ANTS(GSTT)A99 20
- ANTS(GST)RegIns99 Pt.4-2

Case references:

- Case 45/93 93 ATC 486; AAT Case 9093 (1993) 27 ATR 1022
- G.E. Crane Sales Pty Ltd v FCof T (1971) 126 CLR 177; 71 ATC 4268; (1971) 2 ATR 692
- Case T27 (1997) 18 NZTC 8,188

ATO references:
NO 99/16028-4
BO
ISSN: 1034-9758