

# ***Credit card surcharge - part of consideration for supply -***

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! This document has changed over time. This is a consolidated version of the ruling which was published on *1 July 2010*



## Financial Services: Questions and Answers

### Credit card surcharge – part of consideration for supply

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This publication (excluding appendixes) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

#### Is the surcharge part of the consideration for the supply made by the merchant?

1. Yes. The surcharge is considered to form part of the price for the merchant's supply of goods or services to the cardholder. It is a component of the consideration payable in respect of the supply.

#### **Example 1: Purchase of a shirt- Taxable supply**

2. Anastasia is in a store and decides to purchase a shirt. The shirt's price tag indicates that the price is \$55 (inclusive of GST). There is a sign at the counter indicating that a surcharge of 3% of the price will be imposed if payment is made by credit card.
3. Anastasia decides to pay by credit card and the merchant imposes a surcharge of \$1.65 in respect of the sale. The price payable in respect of the shirt is now \$56.65. As the supply of the shirt is a taxable supply, the GST payable in respect of the sale is \$5.15, being 1/11 of the GST inclusive price of \$56.65.

#### **Example 2: Purchase of fruits and vegetables - GST-free supply**

4. Ming Ho, a fruit and vegetable retailer, purchases his stock from a wholesaler. In one particular purchase, the price for the fruits and vegetables comes to \$1,100. The wholesaler imposes a surcharge of 2% on the price if payment is made by credit card.
5. Ming Ho pays by credit card and incurs a surcharge of \$22. The price paid in respect of the fruits and vegetables will be \$1,122. The supply of the fruits and vegetables is a GST-free supply and GST is not payable in respect of the sale.

**Example 3: Enrolment in a college course - mixed supply**

6. Ben enrolls in a college course. There are three units in his course - one unit is taxable and the other two units are GST-free. Ben's packaged course is a mixed supply. The college charges \$1,000 (inclusive of GST) for the taxable unit, \$800 for one of the GST-free units and \$700 for the other GST-free unit. The total amount payable by Ben on the Statement of Account issued by the college is \$2,500.

7. The college imposes a surcharge of 4.5% if payment of the Statement of Account is made by credit card. Ben decides to pay for his course by credit card and the college imposes a surcharge of \$112.50. The price payable in respect of the course is now \$2,612.50.

8. The college apportions 40% of the surcharge, that is, \$45 to the taxable unit as its price amounts to 40% of the total course fee. The balance of the surcharge, amounting to \$67.50, is apportioned to the GST-free units.

9. The price for the taxable supply component of the course is now \$1,045. The GST payable in respect of this component is \$95, being 1/11 of the GST inclusive price of the taxable component of \$1,045.