




Input tax credits - input taxed supply or taxable supply -

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 This publication is extracted from section 10 - leased or rented property of the Property and Construction Industry Partnership - issues register. See issue 10.3.5 of that register. This publication should be read in conjunction with the related content of that register where further context is required.

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



Property and Construction Industry Partnership

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An investor, who is registered for GST, purchases new residential premises from a builder who is also registered for GST. The house has all the usual physical characteristics to enable it to be used for residential accommodation. The investor then supplies the house by way of lease to the builder who intends to use it as a display home.

(1) Is the investor entitled to claim an input tax credit in relation to the purchase of the house from the builder?

(2) Is the supply of the house by the investor to the builder by way of lease an input taxed supply, or a taxable supply?

ATO position

(1)

1. Whether the investor can claim an input tax credit in relation to the purchase of the house will depend on whether the purchase is a creditable acquisition. Section 11-5 of the GST Act provides you make a creditable acquisition if:

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

2. The supply made by the builder to the investor is of new residential premises, and is a taxable supply. Consideration is provided by the investor who is registered for GST. The only question remaining is whether the house was acquired by the investor for a creditable purpose?

3. Section 11-15 of the GST Act provides that you acquire a thing for a creditable purpose to the extent that you acquire it in carrying on your enterprise. However, you do not acquire the thing for a creditable purpose to the extent that:

- the acquisition relates to making supplies that would be input taxed; or
- the acquisition is of a private or domestic nature.

4. For the reasons set out in (2) below, the investor is making an input taxed supply when leasing the house back to the builder for use as a display home. As a result the investor cannot claim any input tax credits in respect of the purchase of the house.

(2)

5. Under subsection 40-35(1) of the GST Act, a supply of premises by way of lease is input taxed if it is a supply of residential premises. A house is residential premises if it is intended to be occupied, and is capable of being occupied, as a residence (see section 195-1 of the GST Act). However, paragraph 40-35(2)(a) of the GST Act states that the supply is input taxed only to the extent that the premises are to be used predominantly for residential accommodation.

6. In order to determine **whether** the supply is input taxed, the issue that needs to be decided is whether the house is to be used 'predominantly for residential accommodation'. It is the ATO view that it is the physical characteristics of the premises that determine whether or not premises are to be used predominantly for residential accommodation.

7. The premises leased as a display home comprise a house that has all the usual physical characteristics that enable it to be used for residential accommodation. Therefore, it is considered that the house being leased as a display home is to be used predominantly for residential accommodation. The importance of physical characteristics is discussed at paragraph 19 of GSTR 2000/20. Paragraph 19, as amended by the addendum to GSTR 2000/20, states as follows:

Further, the requirement in paragraph 40-35(2)(a) and subsection 40-65(1) that input taxing only applies to the extent that the premises are 'to be used predominantly for residential accommodation' indicates that premises that are residential premises are capable of use for purposes other than residential accommodation. It is their physical characteristics that mark them out as a residence. In turn, these characteristics determine when the use or proposed use is for residential accommodation.

8. As a result, the supply of the house by way of lease to be used by the builder as a display home is an input taxed supply under section 40-35 of the GST Act.