



GSTA TPP 004 - Goods and services tax: How do entities accounting on a cash basis who enter into hire purchase agreements claim input tax credits where the principal component of each payment varies on each instalment?

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 This document has changed over time. This is a consolidated version of the ruling which was published on *14 June 2005*



Goods and Services Tax Advice

Goods and services tax: How do entities accounting on a cash basis who enter into hire purchase agreements claim input tax credits where the principal component of each payment varies on each instalment?

Preamble

*This document is a ruling for the purposes of section 37 of the Taxation Administration Act 1953. It illustrates the principles contained in **Goods and Services Tax Ruling GSTR 2000/29 on attribution**. You can rely on the information presented in this document, which provides advice on the operation of the GST system.*

Answer

Financiers' method of calculation is known

If you account on a cash basis and you pay only part of the consideration during a tax period, under subsection 29-10(2)(b) of the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act) you attribute a corresponding portion of the input tax credit to that tax period.

The method used to work out the input tax entitlement must accurately calculate the amount of GST or input tax credit included in each instalment or part instalment. The calculation method should exclude that part of the instalment relating to any input taxed component of the supply and any part that was not subject to GST.

Where the amount of interest and principal is known

If the financier provides regular accounts or statements that show the principal and interest components of the instalments, the recipient must always use that statement as the basis for calculating input tax credits in the relevant tax period.

Where the amount of interest and principal is not known

If the recipient does not know the interest and principal components of the instalment, the recipient must take reasonable steps to find out these details from the financier. Where the financier does not provide these details but provides the

method of calculation of interest, the recipient should use that method of calculation.

If neither the interest component nor the method of calculation of interest can be found out from the financier, estimating the interest component is acceptable. Division 240 of the *Income Tax Assessment Act 1997* provides a specific method to determine the amount of notional interest for income tax purposes. In respect of new hire purchase agreements entered into, it is acceptable if the method described in Division 240 is used for estimating interest for GST purposes. In respect of existing hire purchase agreements, if the recipient has used the guidelines provided in Taxation Ruling TR 93/16 in estimating the interest, the recipient should continue the same methodology adopted until the hire purchase agreement ceases.

The entitlement to input tax credits arises only for supplies on which GST is payable. Therefore, in order to determine the recipient's input tax credit entitlement in a tax period, the recipient is required to exclude the portion representing the interest component from the instalment payments made in that tax period. Also, if the instalment payments made in that tax period include any fees and charges that are not subject to GST, such as stamp duty or registration fees, it is necessary to exclude the portion representing such fees and charges. The recipient's entitlement to input tax credits is 1/11th of the resultant principal amount of the instalments paid in that tax period.

Application of this GST Advice

This Advice is based on GSTR 2000/29. It explains our view of the law as it applied from 1 July 2000. You can rely on this Advice on and from its date of issue for the purposes of section 37 of the *Taxation Administration Act 1953*. Goods and Services Tax Ruling GSTR 1999/1 explains the GST rulings system and our view of when you can rely on our interpretation of the law in GST public and private rulings.

If this Advice conflicts with a previous private ruling that you have obtained, this public ruling prevails. However, if you have relied on a private ruling, you are protected in respect of what you have done up to the date of issue of this public ruling. This means that if you have underpaid an amount of GST, you are not liable for the shortfall prior to the date of issue of this later ruling. Similarly, you are not liable to repay an amount overpaid by the Commissioner as a refund.

Commissioner of Taxation

Date

Related Rulings/Determinations/GST Advice:

TR 93/16

Subject references:

financial supplies
hire purchase agreements
creditable acquisitions
input tax credits

Legislative references:

ANTS(GST)A 1999 29-10
ITAA 1997 Div 240
TAA 1953 37

ATO references

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