


GSTA TPP 008 - Goods and services tax: How do I calculate the input tax credit for second-hand goods divided for re-supply?

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 This document has changed over time. This is a consolidated version of the ruling which was published on *31 October 2012*



Goods and Services Tax Advice

Goods and services tax: how do I calculate the input tax credit for second-hand goods divided for re-supply?

Preamble

*This document was published prior to 1 July 2010 and was a public ruling for the purposes of former section 37 of the **Taxation Administration Act 1953** and former section 105-60 of Schedule 1 to the **Taxation Administration Act 1953**.*

*From 1 July 2010, this document is taken to be a public ruling under Division 358 of Schedule 1 to 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.

[Note: *This is a consolidated version of this document. Refer to the Legal Database (<http://law.ato.gov.au>) to check its currency and to view the details of all changes.*

Answer

In accordance with the global accounting method set out in subdivision 66-B of the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act), 1/11th of the consideration you provide or are liable to provide for your acquisition is included in your subdivision 66-B credit amount.

This amount is offset against future re-supplies you make of second-hand goods to which the global accounting method applies.

Background

You are a GST registered automotive parts recycler. You purchase a used motor vehicle after 1 July 2000 from an unregistered person, dismantle it, and sell it off as parts. Supplies of the parts are taxable supplies or, in the event section 66-45 of the GST Act applies, would have been taxable supplies had this section not applied.

Explanation

Subdivision 66-B of the GST Act deals with acquisitions of second-hand goods that can be used to offset GST on future re-supplies of second-hand goods. This provides a global accounting method for acquisitions of second-hand goods that are divided for re-supply.

Subdivision 66-B of the GST Act applies to an acquisition of second-hand goods if:

- you acquire the goods for the purposes of sale or exchange (but not for manufacture) in the ordinary course of business; and
- either the consideration for the acquisition was more than \$300 or you choose to have this division apply to the acquisition; and
- the goods are of such a kind, or they are supplied to you in such a way, that it would be reasonable to expect you to divide them before supplying them in two or more separate supplies; and
- you do not subsequently make a single supply of the entirety of the goods acquired.

However you cannot use these rules where:

- the consideration for the acquisition separately itemises the consideration for the different goods acquired, and your division of the goods before supplying them:
 - corresponds to that itemisation; or
 - does not involve dividing the goods any further than the division indicated by that itemisation;

- the supply of the goods was a taxable supply or was GST-free;
- the goods were imported;
- the supply of the goods was by way of hire;
- the supply of the goods or part of the goods is not a taxable supply.

The global method allows all of the input tax credits on acquisitions of second-hand goods to which subdivision 66-B of the GST Act applies, to be offset against all of the GST on supplies made from this pool of acquisitions. Thus, no GST is payable on a supply until all of the credits have been absorbed.

For example, if the acquisition pool held \$50 in credits and a re-supply was made for \$440, then the GST payable will be \$40. The \$40 will be offset against the credit pool, which will now equal \$10 in credits.

As the GST payable is offset against the pool of credits you do not have to remit the \$40.

In some instances, the total credits in the pool are absorbed by a re-supply. This re-supply will incur a GST liability on the portion that was not absorbed by the pool of credits.

For example, if the acquisition pool held \$50 in credits and a re-supply was made for \$880, then the GST amount will be \$80. All the credits in the pool will have been absorbed with \$30 in GST remaining. The GST payable to the Australian Taxation Office on the supply will be reduced by the \$50, thus resulting in a \$30 GST liability.

Global accounting determination

The Commissioner has also issued a determination under section 66-70 of the GST Act that allows GST registered entities to apply the global accounting method (pooling of credits and GST) for purchases of the types of second-hand goods specified in the determination. The goods range from antiques to collectables, clothing, coins, stamps and motor vehicle parts that are purchased for sale or exchange but not for manufacture. The global accounting method may be applied to acquisitions specified in the determination that do not cost more than \$1000, regardless of the fact that they may not be divided for re-supply.

By extending the pooling of input tax credits and GST to other second-hand goods, businesses do not have to "track" individual parts or items from the time of purchase to point of sale to work out their GST liability.

Application of this GST Advice

This Advice applies [to tax periods commencing] both before and after its date of issue. However, this Advice will not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of this Advice (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

Commissioner of Taxation
14 June 2005

Related Rulings/Determinations/GST Advice:

TR 2006/10; GSTR 2005/3; GSTA TPP 005; GSTA TPP 006; GSTA TPP 007

Subject references:

second hand goods
input tax credits
global accounting method

Legislative references:

ANTS(GST)A 1999 Div 66-B
TAA 1953 Sch 1 Div 358
A New Tax System (Goods and Services Tax) Rules for Applying Subdivision 66-B Determination (No. 1) 2000

ATO references

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