

GSTD 2021/2 - Goods and services tax: adjustable beds, pressure management mattresses and pressure management overlays

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Status: **legally binding**

Goods and Services Tax Determination

Goods and services tax: adjustable beds, pressure management mattresses and pressure management overlays

🔔 Relying on this Determination

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

If this Determination applies to you, and you correctly rely on it, we will apply the law to you in the way set out in this Determination. That is, you will not pay any more tax or penalties or interest in respect of the matters covered by this Determination.

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What this Determination is about

1. This Determination discusses when the supply of an adjustable bed, pressure management mattress, pressure management overlay or spare part is GST-free under subsections 38-45(1) and (2) of the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act) and table items 59, 60 and 66 of Schedule 3.¹ We are issuing this Determination because the market for these products has developed and in some cases there is now uncertainty whether the products meet the criteria to be GST-free. This

¹ All legislative references in this Determination are to the GST Act, unless otherwise indicated.

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Determination does not cover hospital-type beds, as these are GST-free under table item 61 of Schedule 3.

Ruling

2. An adjustable bed, pressure management mattress or pressure management overlay is GST-free only if it is:

- specifically designed for people with an illness or disability
- not widely used by people without an illness or disability², and
- covered by table items 59, 60 or 66 of Schedule 3.

3. Determining whether a bed, mattress or overlay is GST-free involves applying an essential character test to examine its basic nature, taking its composition, function and other factors into account.³

4. Adjustable beds are covered by either table item 59 (manually operated) or table item 60 (electronically operated) of Schedule 3. A bed is covered by one of these table items if its upper and lower sections can be adjusted or manipulated to assist a person who has limited mobility to get in and out unaided, or to allow a person to rest with their upper or lower body elevated.

5. A pressure management mattress or pressure management overlay will be covered by table item 66 of Schedule 3 if it is designed to provide comfort and prevent bed sores by evenly distributing the pressure on a patient's body.

6. Paragraph 38-45(1)(b) requires that 'the thing' supplied is specifically designed for people with an illness or disability and is not widely used by people without an illness or disability. Therefore, subsection 38-45(1) requires that we examine the specific thing or the specific product, rather than the class of products.

Specifically designed

7. The following factors are a non-exhaustive list of matters you should take into account when considering whether a particular product is specifically designed for people with an illness or disability:

- An objective view of the design features and characteristics of the product indicate whether its essential character is that it is specifically designed for people with an illness or disability.
- The designer's or manufacturer's intention of how the particular product is to be used. Indicators of the designer's or manufacturer's intention include an objective consideration of how the product is marketed and the type of outlets at which the product can be purchased.

² Paragraph 38-45(1)(b).

³ The 'essential character' test is considered in the sales tax case of *Commissioner of Taxation of the Commonwealth of Australia v Thomson Australian Holdings Pty Ltd* [1989] FCA 382 (*Thomson*) at [4]. In *Snugfit Australia Pty Ltd and Commissioner of Taxation* [2013] AATA 802 at [10], the Administrative Appeals Tribunal considered that the principle set out in *Thomson* is equally applicable in the context of section 38-45 and thus '... the task ... is to determine the essential character of the goods, what essentially the goods are, not some characteristic that the goods might have.'

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Not widely used

8. The phrase 'not widely used' is not defined in the GST Act. It therefore takes its ordinary meaning, having regard to the context in which it appears.⁴ It is a question of degree whether a product is not widely used by people without an illness or disability. The Commissioner considers that it is reasonable to conclude that the test is not satisfied if the product is widely purchased by or on behalf of people without an illness or disability, without the need to examine how this class of people in fact use the product.

9. In the context of paragraph 38-45(1)(b), the Commissioner considers 'not widely used' to mean not used by many people who do not have an illness or disability.

10. The following factors will be relevant, but are not an exhaustive list, when considering whether a product is widely used by people without an illness or disability:

- The product is widely sold in retail or other outlets that predominantly sell standard beds (that is, beds that do not have features specifically designed for people with an illness or disability) to the general public.
- The marketing material for the product emphasises how it enhances the lifestyle of people without an illness or disability.

Spare parts

11. Subsection 38-45(2) provides that a spare part is GST-free where it is supplied as, and specifically designed as, a spare part for a product that would be GST-free under subsection 38-45(1). A spare part is a part which has been specifically designed to replace a faulty, worn or broken part of a medical aid or appliance. A spare part can also have characteristics that enhance or improve the faulty, worn or broken part.

12. A bedframe or a mattress can be a spare part only if it is supplied as, and specifically designed as, a replacement for a faulty, worn or broken bedframe or mattress of an adjustable bed that would be GST-free under subsection 38-45(1). This includes mattresses supplied separately. The design features and characteristics of the mattress and how it is marketed will be relevant considerations.

13. A pressure management mattress and pressure management overlay are not spare parts of an adjustable bed. Their GST treatment needs to be considered under subsection 38-45(1).

Example 1 – adjustable bed specifically designed for people with an illness or disability

14. *XYZ Beds Pty Ltd manufactures a range of beds, including the electronically-operated adjustable bed model XYZ123.*

15. *XYZ123's design features include an adjustable lumbar support for the lower back, head and leg elevation to promote circulation, and highly-flexible struts and contact pads designed to provide maximum support to the head, shoulder, waist, pelvic and leg zones.*

16. *XYZ123's design features point towards a finding that the product is specifically designed for people with an illness or disability.*

⁴ *Project Blue Sky Inc v Australian Broadcasting Authority* [1998] HCA 28 at [69].

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Example 2 – adjustable bed is not widely used by people without an illness or disability

17. Following on from Example 1 of this Determination, XYZ123 is only available for purchase by the public from retailers that sell products for use by people with an illness or disability.
18. The marketing brochures have pictures of a person with a disability and describe how the bed assists with getting in and out of bed. None of the marketing material describes the bed as being a lifestyle choice.
19. The design features and characteristics of XYZ123, the manner in which it is marketed and the outlets from which it can be purchased point towards a finding that the product is not widely used by people without an illness or disability.
20. Therefore, the supply of model XYZ123 is GST-free.

Example 3 – adjustable bed not specifically designed for people with an illness or disability and is widely used by people without an illness or disability

21. Bed Manufacturing Pty Ltd (BMP) manufactures the manually-operated adjustable bed model BMP456.
22. BMP456's marketing brochure extols the health benefits of being able to adjust the position of a user's body to find the perfect position to read a book, watch television or use an electronic device to browse the internet, and the bed's ability to help alleviate muscle and joint pain and a variety of conditions including sleep apnoea.
23. BMP markets BMP456 to furniture retail shops and online sites that sell standard beds to the wider community.
24. Although BMP456 has features that benefit people with an illness or disability, the manner in which it is marketed and the channels in which it is sold point towards a finding that the product is not specifically designed for people with an illness or disability and is widely used by people without an illness or disability.
25. Therefore, the supply of BMP456 is not GST-free.

Date of effect

26. This Determination applies both before and after its date of issue. However, the Determination will not apply to taxpayers to the extent that it conflicts with the terms of settlement of a dispute agreed to before the date of issue of the Determination (see paragraphs 75 to 76 of Taxation Ruling TR 2006/10 *Public Rulings*).

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Transitional arrangements

27. In cases where the supplies of adjustable beds, pressure management mattresses or pressure management overlays are currently being treated as GST-free, the Commissioner will not seek to disturb this approach for tax periods commencing prior to the Determination being issued, or commencing within three months after the final Determination being issued. This does not apply where there is evidence of avoidance, fraud or evasion.

Commissioner of Taxation

8 December 2021

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Appendix – Compliance approach

① *This Appendix sets out a practical administration approach to assist taxpayers in complying with relevant tax laws. Provided you follow the advice in this appendix in good faith and consistently with the Ruling section, the Commissioner will administer the law in accordance with this approach.*

28. The Commissioner is aware of the practical difficulties a supplier may encounter in determining the extent to which the thing supplied is used by people without an illness or disability.

29. The Commissioner will adopt a practical compliance approach for the supply of products that fall within table items 59, 60 and 66 of Schedule 3 and are specifically designed for people with an illness or disability. As part of this approach, the Commissioner will not apply compliance resources to verify a supplier's compliance with the widely used test in paragraph 38-45(1)(b) if you fall within the compliance approach set out in paragraphs 32 to 35 of this Determination.⁵

30. Where you do not satisfy the compliance approach outlined in paragraph 33 of this Determination, it does not necessarily mean that the supply of the product is not GST-free. You will need to determine if the product is not widely used by people without an illness or disability for the purposes of paragraph 38-45(1)(b) from the evidence available, having regard to the principles set out in this Determination.

31. The Commissioner will adopt the following compliance approach from the start of the tax period commencing three months after this Determination issues as a final Determination.

Compliance approach

32. This compliance approach applies to an entity that is registered for goods and services tax (GST) and:

- supplies adjustable beds, pressure management mattresses or pressure management overlays⁶ to a bed retailer, or
- is a bed retailer.

33. The Commissioner will accept that an adjustable bed, pressure management mattress or pressure management overlay is not widely used by people without an illness or disability if you:

- supply adjustable beds to bed retailers and less than 25% of sales by volume of the particular product are supplied to standard bed retailers, or
- are a bed retailer and you acquired the product from a supplier who has given you a written statement confirming they supply less than 25% of that product by volume to standard bed retailers, or
- are a manufacturer of adjustable beds who does not supply retailers and less than 25% of your sales by volume are standard beds.⁷

⁵ This compliance approach does not apply more widely to other table items listed in Schedule 3.

⁶ Supplies of adjustable beds, pressure management mattresses or pressure management overlays must be specifically designed for people with an illness or disability and covered by table items 59, 60 or 66 of Schedule 3.

⁷ This addresses factory direct sales situations.

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34. For these purposes, a:

- 'bed retailer' is an entity that sells beds to consumers
- 'standard bed retailer' is an entity whose sales of standard beds exceed 25% of total bed sales by volume, and
- 'standard bed' is a bed that is not an adjustable bed.

35. The Commissioner will not apply compliance resources to verify compliance with your GST reporting obligation for your supply of an adjustable bed, pressure management mattress or pressure management overlay if:

- you satisfy paragraph 33 of this Determination
- the percentage in paragraph 33 of this Determination is calculated using sales data for the first six months of the most recently-ended income year to determine whether the product is not widely used in the following income year
- the particular product is new to the market and the projected sales for the first six months in which the product is for sale are used to determine whether the product is not widely used
- you keep records of how you satisfy paragraph 33 of this Determination, and
- there is no evidence of avoidance, fraud or evasion.

Status: **not legally binding**

References

Previous draft:

GSTD 2021/D1

Related Rulings/Determinations:

TR 2006/10

Legislative references:

- ANTS(GST)A 1999 38-45(1)
- ANTS(GST)A 1999 38-45(1)(b)
- ANTS(GST)A 1999 38-45(2)
- ANTS(GST)A 1999 Sch 3
- TAA 1953

Cases relied on:

- Commissioner of Taxation of the Commonwealth of Australia v Thomson Australian Holdings Pty Ltd [1989] FCA 382; 89 ATC 4696; 87 ALR 682; 20 ATR 983; 25 FCR 481
- Project Blue Sky Inc v Australian Broadcasting Authority [1998] HCA 28; 194 CLR 355; 72 ALJR 841; 153 ALR 490
- Snugfit Australia Pty Ltd and Commissioner of Taxation [2013] AATA 802; 95 ATR 473; 2013 ATC 10-339

ATO references

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