

GSTR 2000/2A - Addendum - Goods and Services Tax: adjustments for bad debts

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Addendum

Goods and Services Tax Ruling

Goods and services tax: adjustments for bad debts

This Addendum amends Goods and Services Tax Ruling GSTR 2000/2 to clarify when adjustments for bad debts are to be attributed. The Addendum also updates the Ruling for legislative changes made to the *A New Tax System (Goods and Services Tax) Act 1999* (the GST Act) and the *A New Tax System (Goods and Services Tax Transition) Act 1999* (the Transition Act) since its publication.

This Addendum applies from 8 July 1999. You can rely on the amendments to GSTR 2000/2, for the purposes of section 37 of the *Taxation Administration Act 1953*, from the date of issue of the Addendum.

GSTR 2000/2 is amended as follows:

1. Paragraph 8A

The *Tax Laws Amendment (Long-term Non-reviewable Contracts) Act 2005* inserts new provisions into the Transition Act. In some circumstances these provisions makes the recipient primarily liable for the GST on the taxable supply. New Division 2 of the Transition Act includes another means by which an adjustment for a bad debt may arise. However, section 21-5 of the GST Act does not apply to the taxable supply in these cases. The paragraph reads:

8A. An adjustment for a bad debt can arise under section 15G of the *A New Tax System (Goods and Services Tax Transition) Act 1999* (the Transition Act). If you have a decreasing adjustment under this section, then section 21-5 of the GST Act does not apply to the taxable supply. This Ruling does not deal with adjustments for bad debts arising under section 15G.

2. Paragraph 16

In the second sentence delete 'when the debt has been overdue for 12 months.' and substitute with 'in which you become aware that the debt has been overdue for 12 months or more.' The paragraph now reads:

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16. You attribute an adjustment to the tax period in which you become aware of it. Accordingly, you have a decreasing adjustment in the tax period in which the debt is written off, or, if the debt has not been written off, in the tax period in which you become aware that the debt has been overdue for 12 months or more.

3. Paragraph 22

Delete the third sentence and after 'written off' in the second sentence, add 'or if the debt has not been written off at the time when the debt has been overdue for 12 months or more, in the tax period in which you become aware that the debt has been overdue for 12 months or more'. The paragraph now reads:

22. You attribute an adjustment to the tax period in which you become aware of it. Accordingly, you have an increasing adjustment in the tax period in which you become aware that the debt is written off, or if the debt has not been written off at the time when the debt has been overdue for 12 months or more, in the tax period in which you become aware that the debt has been overdue for 12 months or more.

4. Paragraph 48

In the first sentence the word 'tax' is added before 'period' to clarify that the reference is to a tax period as required by section 29-20 of the GST Act. In the third sentence delete 'the debt becomes 12 months overdue' and substitute 'you become aware that the debt has been overdue for 12 months or more.' The paragraph now reads:

48. You attribute an adjustment to the tax period in which you become aware of it. Therefore, you attribute the decreasing adjustment to the tax period in which you write off the debt. If the debt has been overdue for 12 months or more, you attribute the decreasing adjustment to the tax period in which you become aware that the debt had become overdue for 12 months or more.

5. Paragraph 49

The heading and the example at paragraph 49 is deleted and substituted with new examples to read:

Example (a)

49AA. *Marcus sells equipment to Russell for \$550 (including GST), and issues the invoice on 15 March 2001. The invoice is payable on or before 15 April 2001. Marcus does not account on a cash basis and uses 3 monthly tax periods. He attributes the GST on the supply to the tax period ending 31 March 2001.*

49AB. *Marcus's employee, Jason, manages accounts receivable and prepares an aged debt analysis which he provides to Marcus each month.*

49AC. *Marcus's records show that Russell's account was payable on or before 15 April 2001 and became overdue on 16 April 2001. Despite repeated written demands made by Marcus, the debt was still outstanding as at 16 April 2002 when it became overdue for 12 months. Marcus did not write off the debt on that date but wrote to Russell requesting payment before the commencement of legal processes to collect the outstanding amount.*

49AD. *Marcus has a decreasing adjustment attributable to the tax period ending 30 June 2002.*

Example (b)

49BA. *Greg sells equipment to Simon for \$550 (including GST), and issues the invoice on 15 May 2001. The invoice is payable on or before 15 June 2001. Greg does not account on a cash basis and uses 3 monthly tax periods. He attributes the GST on the supply to the tax period ending 30 June 2001.*

49BB. *Greg engages Antonia, an independent debt collector, to collect accounts that are overdue by three months or more. She does not acquire any interest in the debts herself. Antonia reports to Greg on a tri-annual basis (30 April, 31 August, and 31 December), at which time she also remits to Greg amounts that she has collected less her fees.*

49BC. *The debt owed by Simon was payable on or before 15 June 2001. It was referred to Antonia on 16 October 2001.*

49BD. *Antonia contacted Simon several times to demand payment. However, the debt was still outstanding on 16 June 2002 when it became overdue for 12 months. Antonia provided a report to Greg in relation to this debt on 31 December 2001, 30 April 2002 and 31 August 2002 as part of her normal reporting arrangement with him.*

49BE. *Greg has a decreasing adjustment in relation to this outstanding debt. The adjustment is attributable to the tax period ending 30 September 2002, as it was not until Greg received Antonia's report of 31 August that he first became aware that the debt was overdue for 12 months or more.*

6. Paragraph 53

The existing paragraph has been replaced as it is based on an example which has been changed. The new paragraph reads:

53. Continuing with Example (a) in paragraphs 49AA to 49AD, Marcus has a decreasing adjustment in the tax period ending 30 June 2002 of \$50 ($\$550 \times \frac{1}{11}$).

7. Paragraph 54

Under the first bullet point in relation to 'full adjustment' delete 'or 21-10 (that is, $\frac{1}{11}$ of the amount written off or overdue for 12 months or more or $\frac{1}{11}$ of the amount subsequently recovered)' and substitute with ', 21-10, 136-30 or 136-35 if section 136-5 did not apply.' The paragraph now reads:

54. However, if the supply you made was partly taxable, the decreasing adjustment is to be calculated according to the following formula:

$$\text{full adjustment} \times \text{taxable proportion}^{F12}$$

Where:

- 'full adjustment' is what would be the amount of the adjustment worked out under sections 21-5, 21-10, 136-30 or 136-35 if section 136-5 did not apply.
- 'taxable proportion' is the proportion of the value of the supply (worked out as if it were solely a taxable supply) that the taxable supply represents.

8. Paragraph 64

In the first sentence the word 'tax' is added before 'period' to clarify that the reference is to a tax period as required by section 29-20 of the GST Act. After the word 'period', the words 'in which' are added for ease of reading. In the second sentence delete 'you are aware' and substitute 'you become aware'. In the third sentence delete 'the debt becomes 12 months overdue.' and substitute with 'you become aware that the debt had become overdue for 12 months or more.' The paragraph now reads:

64. You attribute an adjustment to the tax period in which you become aware of it. Therefore, if you become aware that a debt has been written off, you attribute the increasing adjustment to the tax period in which you become aware that it has been written off. If the debt has been overdue for 12 months or more, you attribute the increasing adjustment to the tax period in which you become aware that the debt had become overdue for 12 months or more.

9. Paragraphs 65 and 66

The example in these paragraphs has been deleted and replaced with a new example. The paragraphs read:

65. *Continuing with example (a) from paragraph 49AA to 49AD. Russell does not account on a cash basis and uses 3 monthly tax periods.*

66. *Russell receives Marcus' letter threatening legal action on 20 April 2002. Russell has an increasing adjustment in relation to the debt as it has become overdue for 12 months or more. The adjustment is attributable to the tax period ending 30 June 2002.*

10. Paragraph 68

Under the first bullet point in relation to 'full adjustment' delete 'or 21-20 (that is, $\frac{1}{11}$ of the amount written off or overdue for 12 months or more or $\frac{1}{11}$ of the amount recovered)' and substitute with ', 21-20, 136-40 or 136-45 if section 136-10 did not apply.' The paragraph now reads:

68. However, if you make an acquisition that is partly creditable, your increasing adjustment is calculated according to the following formula:

$$\text{Full adjustment} \times \text{extent of creditable purpose} \times \text{extent of consideration}^{F14}$$

Where:

- 'full adjustment' is what would be the amount of the adjustment under section 21-15, 21-20, 136-40 or 136-45 if section 136-10 did not apply.
- 'extent of creditable purpose' is the extent of creditable purpose last used to work out:
 - (a) the amount of input tax credit for the acquisition; or
 - (b) the amount of any adjustment under Division 129 in relation to the acquisition;
 expressed as a percentage of the total purpose of the acquisition.
- 'extent of consideration' is the extent to which you provide, or are liable to provide, the consideration for the acquisition, expressed as a percentage of the total consideration for the acquisition.

11. Paragraph 68A

A new paragraph 68A has been added in recognition of *Tax Laws Amendment (Small Business Measures) Act 2004* which inserted new Division 131 into the GST Act. The new paragraph reads:

68A. If you make an 'annual apportionment election' under Division 131, section 136-10 will not apply to the adjustment under Division 21 if the requirements of subsection 136-10(3) are met.^{15A}

12. Footnote 15A

At the end of paragraph 68A, which was inserted by item 11, insert new footnote 15A:

^{15A} Subsection 136-10(3). Division 131 allows an entity that has made an annual apportionment election to initially claim a full input tax credit on acquisitions that are partly creditable. A later adjustment under section 131-55 takes into account the extent of application for a creditable purpose and also takes into account the operation of Divisions 19, 21 and 136.

13. Paragraph 73

Delete the paragraph including footnote 16 and substitute with the following:

73. If you have an adjustment for a bad debt under section 21-15, 21-20, 136-40 or 136-45 in relation to a *reduced credit acquisition*^{F16} and it was not partly creditable (that is, it is wholly for a creditable purpose because of Division 70), the amount of that adjustment is reduced to the following amount:

$$\text{Full adjustment} \times \text{percentage credit reduction} \times \text{extent of consideration}^{\text{F17}}$$

Where:

- 'full adjustment' is what would be the amount of the adjustment worked out under section 21-15, 21-20, 136-40 or 136-45 if section 136-10 did not apply.
- 'percentage credit reduction' is the reduced input tax credit percentage prescribed for the purposes of subsection 70-5(2) for an acquisition of that kind.
- 'extent of consideration' is the extent to which you provide, or are liable to provide, the consideration for the acquisition, expressed as a percentage of the total consideration for the acquisition.

14. Footnote 16:

Replace footnote 16 with:

¹⁶ Division 70 allows a reduced input tax credit for certain acquisitions made by a financial supply provider. See GSTR 2002/2 Goods and services tax: GST treatment of financial supplies and related supplies and acquisitions and GSTR 2004/1 Goods and services tax: reduced credit acquisitions which explains the application of Division 70 and in particular those acquisitions listed in subregulation 70-5.02(2).

15. Paragraph 74

The Transition Act was amended by Act No. 73 of 2001 after GSTR 2000/2 was published and the Ruling needs to be updated. Delete the remainder of the paragraph after the words 'input tax credits' where they first appear and replace with 'will not be allowed for the acquisition or importation of specified vehicles made before 23 May 2001.' The paragraph now reads:

74. Under section 20 of Transition Act input tax credits will not be allowed for the acquisition or importation of specified vehicles made before 23 May 2001.

16. Paragraph 76

Delete this paragraph. It outlines the principles applying to the phasing in of input tax credits for specified motor vehicles under subsections 20(3) and 20(6) of the Transition Act which were repealed by Act No. 73 of 2001. These subsections were repealed before they became operative.

17. Paragraph 86

Under the definition of taxable supply delete '78-30 (about taxable supplies relating to insurance claims)' and substitute with '78-50 (about taxable supplies relating to insurance claims when entitlement to input tax credits is not disclosed).' The definition now reads:

Taxable supply

Taxable supply has the meaning given by sections 9-5 (the basic definition), 78-50 (about taxable supplies relating to insurance claims when entitlement to input tax credits is not disclosed), 84-5 (about intangible supplies from offshore) and 105-5 (about supplies by creditors in satisfaction of debts). Section 9-5 provides that:

- (i) you make a taxable supply if:
 - (a) you make the supply for consideration; and
 - (b) the supply is made in the course of furtherance of an enterprise that you carry on; and
 - (c) the supply is connected with Australia; and
 - (d) you are registered, or required to be registered.
- (ii) however, the supply is not a taxable supply to the extent that it is GST-free or input taxed.

18. Related Rulings/Determinations

Add the following:

GSTR 2002/2; GSTR 2004/1

GSTR 2000/2

19. Subject references

Add the following:

- annual apportionment election
- reduced credit acquisition
- reduced input tax credit

20. Legislative references

Add the following:

- ANTS(GST)A99 Div 19
- ANTS(GST)A99 Div 21
- ANTS(GST)A99 Div 70
- ANTS(GST)A99 78-50
- ANTS(GST)A99 84-5
- ANTS(GST)A99 105-5
- ANTS(GST)A99 Div 131
- ANTS(GST)A99 131-55
- ANTS(GST)A99 136-10(3)
- ANTS(GST)A99 136-30
- ANTS(GST)A99 136-35
- ANTS(GST)A99 136-40
- ANTS(GST)A99 136-45
- ANTS(GSTT)A99 15G
- ANTS(GST)Reg99 70-5.02(2)

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ATO references

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