GSTR 2020/1 - Goods and service tax: determining the creditable purpose of acquisitions in relation to transaction accounts

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Goods and Services Tax Ruling

Goods and service tax: determining the creditable purpose of acquisitions in relation to transaction accounts

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Relying on this Ruling

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

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

Further, if we think that this Ruling disadvantages you, we may apply the law in a way that is more favourable to you.

Summary – what this Ruling is about

1. This Ruling provides advice on the application of paragraph 11-15(2)(a)[1] of the *A New Tax System (Goods and Services Tax) Act 1999* to acquisitions made in relation to certain accounts provided by a financial supply provider (you).

2. This Ruling applies to you if you are an Australian authorised deposit-taking institution, such as a bank, credit union or building society, that supplies an interest in or under an account covered by table item 1 of subsection 40-5.09(3) of the *A New Tax System (Goods and Services Tax) Regulations 2019* (GST Regulations). In this Ruling, you will be referred to as an 'account provider'.

3. The supply of an interest in or under an account that this Ruling applies to will be referred to as the supply of a 'transaction account'. This includes accounts such as everyday, savings, cheque, deposit, or transaction accounts, including accounts that also have overdraft facilities or that have become overdrawn, and online savings and term deposit accounts.[2] These transaction accounts may be supplied to account holders who are consumers or businesses.

[1] This Ruling assumes that acquisitions have otherwise satisfied section 11-15, and does not address the application of subsections 11-15(3), (4) and (5), or entitlement to reduced input tax credits under Division 70.

[2] This includes where such accounts are used as a loan or mortgage offset account.

4. This Ruling does not apply to the following accounts that are covered by table item 1 of subsection 40-5.09(3) of the GST Regulations:

- accounts that are primarily also a supply of a credit arrangement or right to credit by the account provider, which are covered by table item 2 of subsection 40-5.09(3) of the GST Regulations, such as a credit card account[3] or loan account
- purchased payment facilities including prepaid cards or facilities that use the scheme debit or EFTPOS payment system, including prepaid gift cards, prepaid travel cards or similar cards loaded with foreign currency, or
- accounts denominated in foreign currencies.

5. The Commissioner's views on determining the extent of creditable purpose for financial supply providers are set out in:

- Goods and Services Tax Ruling GSTR 2008/1 *Goods and services tax: when do you acquire anything or import goods solely or partly for a creditable purpose?*
- Goods and Services Tax Ruling GSTR 2006/3 *Goods and services tax*: *determining the extent of creditable purpose for providers of financial supplies.*[4]

6. This Ruling considers the application of these views in the specific context of acquisitions made in a transaction accounts business[5], focusing on whether acquisitions are partly for a creditable purpose because they have a relevant connection to the account provider making taxable supplies of interchange services.

7. Depending on the facts, there may be additional supplies made to the account holder.[6] It is not possible for this Ruling to address all potential supplies or factual situations.[7]

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[3] See Goods and Services Tax Ruling GSTR 2019/2 *Goods and services tax*: *determining the creditable purpose of acquisitions in a credit card issuing business* for the Commissioner's views on the application of paragraph 11-15(2)(a) to acquisitions in a credit card issuing business.

[4] Practical Compliance Guideline PCG 2017/15 *GST and Customer Owned Banking Institutions* explains the Commissioner's practical administration approach to apportionment by customer-owned banking institutions.

[5] Note that references to acquisitions made in a 'transaction accounts business' are used in this Ruling to refer generally to acquisitions for use in making supplies of transaction accounts. The way these acquisitions are recognised in taxpayers' natural cost allocation or accounting systems will vary in practice.

[6] For example, an international money transfer or international cheques may give rise to additional supplies, depending on the facts.

[7] See Table A of Schedule 2 of Goods and Services Tax Ruling GSTR 2002/2 *Goods and services tax: GST treatment of financial supplies and related supplies and acquisitions*, which provides a summary of fees and services in relation to transaction banking and cash management, for further examples of the functions and features associated with a transaction account.

8. This Ruling provides examples to illustrate how paragraph 11-15(2)(a) applies to certain acquisitions in a transaction accounts business.

9. This Ruling does not address:

- what is a fair and reasonable apportionment method for acquisitions in a transaction accounts business. The ATO's compliance approach for the apportionment of these acquisitions is set out in Practical Compliance Guideline PCG 2019/8 *ATO compliance approach to GST apportionment of acquisitions that relate to certain financial supplies*
- acquisitions in an acquiring business, or the extent to which acquisitions relate to supplies made in that business.

10. In this Ruling:

- all legislative references are to the *A New Tax System (Goods and Services Tax) Act 1999* unless otherwise indicated
- a reference to the GST Regulations refers to the *A New Tax System (Goods and Services Tax) Regulations 2019*
- any reference to 'acquisitions' applies equally to importations under paragraph 15-10(2)(a)
- the indirect tax zone is referred to as 'Australia'.

Background

Supplies made by account providers

11. The supply of a transaction account is an input taxed financial supply of the provision of an interest in or under an account under table item 1 of subsection 40-5.09(3) of the GST Regulations, except to the extent it is GST-free (if any). The extent to which a supply of a transaction account is GST-free under table items 3 or 4(a) of subsection 38-190(1) is addressed in Goods and Services Tax Determination GSTD 2020/1 *Goods and services tax: when is the supply of a transaction account GST-free under table item 3 or table item 4(a) of subsection 38-190(1) of the A New Tax System (Goods and Services Tax) Act 1999 (GST Act)?*

12. The relationship between the account provider and account holder in respect of a transaction account is a debtor-creditor relationship, where the account holder loans the account provider funds by making deposits.[8]

[8] *Joachimson v Swiss Bank Corporation* [1921] 3 KB 110 at [126-127].

13. There is one contract between the account provider and account holder, rather than each deposit being a new contract.[9] The balance of the funds in the bank account standing to the account holder's credit is a debt that is a single chose in action, arising out of the single continuing contract between the account provider and account holder.[10]

14. Having regard to the essential character of the ongoing debtor-creditor relationship between the account provider and the account holder under their continuing contract, there is a single ongoing financial supply made to the account holder.[11] While the account holder uses the account on an ongoing basis to undertake transactions, each transaction does not give rise to a separate supply.[12]

15. The ability of the account holder to use the account to undertake transactions with overseas merchants, for example, scheme debit transactions, is an integral, ancillary or incidental part of the supply of the transaction account, and transactions on the account do not give rise to separate supplies. Therefore, any overseas transaction fees will also form part of the consideration for the supply of the transaction account.

16. The consideration for the supply of the transaction account also includes the credit provided by the account holder to the account provider when funds are deposited into the account. As such, all account holders that deposit funds into their account – including those that do not pay any fees under the account – provide consideration for the supply of the transaction account.

17. As explained further in paragraphs 18 and 19 of this Ruling, an account provider may make a taxable supply of interchange services to a participant in a payment system in relation to some transactions initiated by account holders.[13]

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[9] *Hart (Inspector of Taxes) v Sangster* [1957] 1 Ch 329.

[10] *Joachimson v Swiss Bank Corporation* [1921] 3 KB 110, *Hart (Inspector of Taxes) v Sangster* [1957] 1 Ch 329, *Alcom v Republic of Colombia* [1984] AC 580.

[11] The examples of financial supplies under table item 1 of subsection 40-5.09(3) provided in Schedule 2 of Part 7 of the GST Regulations recognise the ongoing nature of the transaction account facility offered to account holders by identifying common transactions and features of such facilities (including the opening, keeping, operating, maintaining and closing of cheque, debit card, deposit and savings accounts for account holders).

[12] In *Commissioner of Taxation v MBI Properties Pty Ltd* [2014] HCA 49 (*MBI Properties*) at [35], the High Court noted that '[a] transaction which involves a supplier entering into and performing an executory contract will in general involve the supplier making at least two supplies …'. However, *MBI Properties* focused on what is sufficient to constitute a supply, rather than whether a course of action that might involve more than one thing satisfying the definition of supply should be characterised as one or more supplies. In focusing on the entire contractual arrangement considered contextually and as a whole, a single financial supply is made to the account holder. In any event, the supply of the contractual performance of the account provider's obligations would be a single ongoing supply.

[13] Table item 4 of section 40-5.12 of the GST Regulations. This Ruling does not address when the supply of interchange services is GST-free.

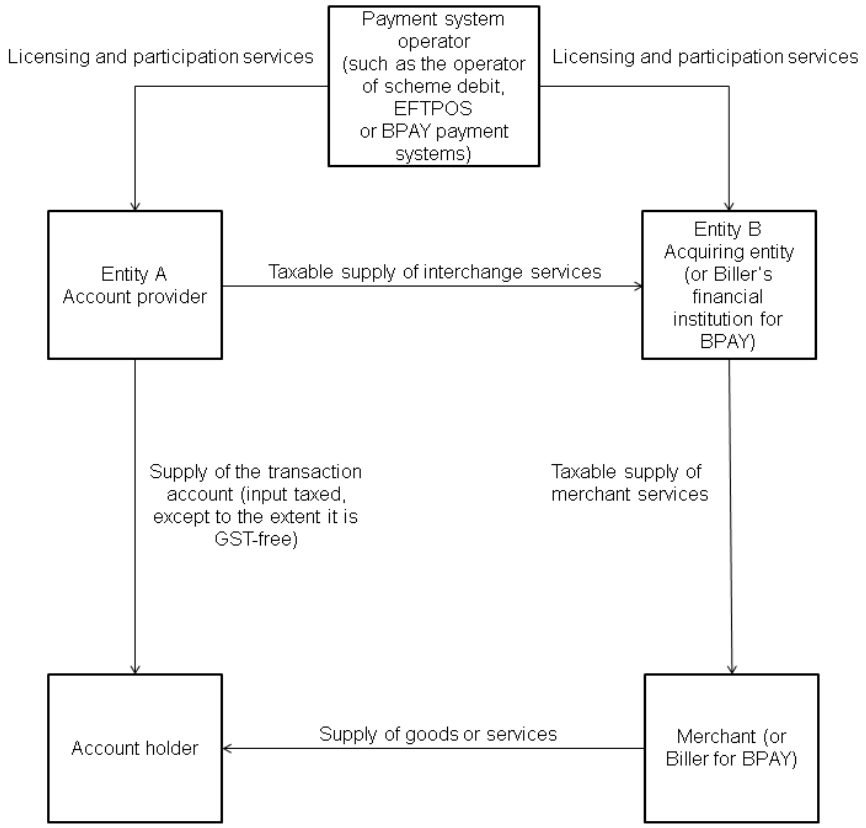
Transactions that involve taxable supplies of interchange services

18. The account provider may make a taxable supply of interchange services to:

- acquiring entities in authorising, clearing and settling of purchase transactions that the account holder initiates using a scheme debit card or EFTPOS, or
- a Biller's financial institution when the account holder initiates a BPAY transaction.[14]

19. Table 1 of this Ruling summarises these supplies.

Table 1: supplies of interchange services that may be made by account providers



[14] There may also be situations where an account provider does not make a taxable supply of interchange services, because the supply is not made for consideration. An example is where the payment system rules provide that there is no interchange fee for a particular type of transaction.

20. When a transaction takes place on the account via the scheme debit, EFTPOS[15] or BPAY payment systems, the completion of that transaction requires the account provider to make a supply of interchange services (except for where the transactions are 'on-us' transactions, as described in paragraph 23 of this Ruling). This reflects the interrelated way in which these payment systems operate, so that the account provider cannot complete the particular transaction under the account without also supplying taxable interchange services, and that the taxable supply of interchange services can only be performed if there is a related transaction that gives rise to a debit to the account.

Transactions that do not involve taxable supplies of interchange services

21. Some of the ways in which an account holder can access a transaction account, or that a third party can make deposits into or withdrawals from a transaction account, do not involve the account provider making a taxable supply of interchange services to another entity.

22. For example, the following transactions do not involve the account provider making taxable supplies of interchange services:

- deposits or withdrawals at a branch or ATM
- cash-out withdrawals, and combined cash-out withdrawal and purchase transactions, via EFTPOS at a participating merchant (see paragraphs 24 and 25 of this Ruling)
- transfers between linked accounts with the same account provider
- direct debit or direct credit transactions
- payments to other accounts that do not involve supplies of interchange services (such as 'Pay Anyone' payments or payments via the New Payments Platform).

23. There may also be 'on-us' transactions where an account provider does not make a supply of interchange services, because the account provider is also the:

- acquiring entity for a scheme debit card or EFTPOS purchase transaction
- Biller's financial institution for a BPAY transaction.[16]

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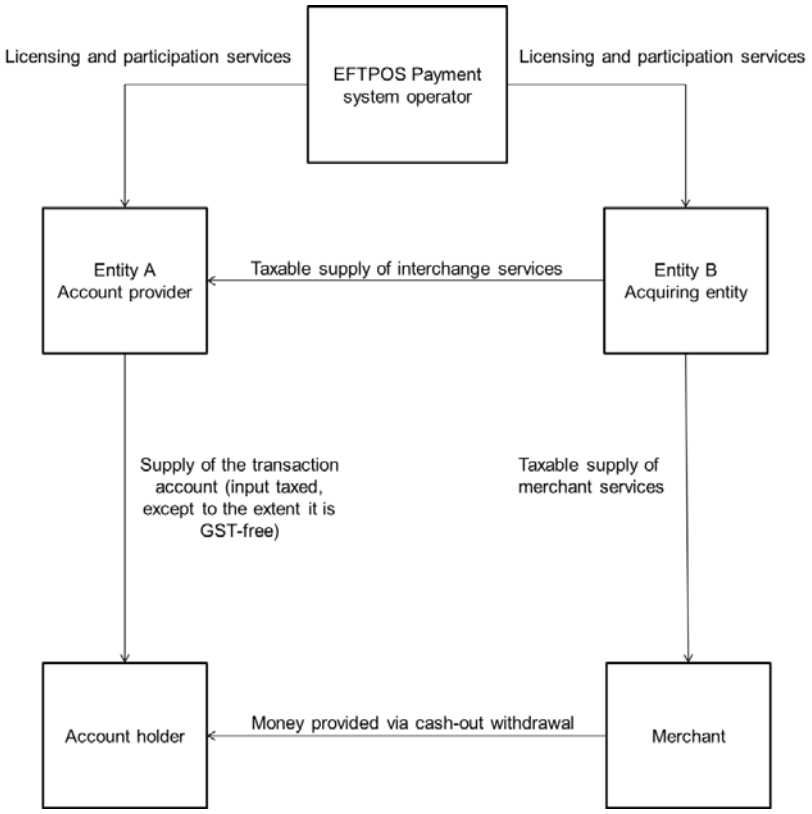
[15] Except for cash-out withdrawals via EFTPOS, as explained further in paragraphs 24 and 25 of this Ruling.

[16] This Ruling does not address acquisitions in an acquiring business or by a Biller's financial institution for BPAY transactions.

24. An account provider will make taxable supplies of interchange services for some types of EFTPOS transactions as explained in paragraph 18 of this Ruling. However, for certain EFTPOS transactions (for example, cash-out withdrawals and combined cash-out withdrawal and purchase transactions) the taxable supply of interchange services is made by the acquiring entity and not by the account provider, and the account provider must pay consideration to the acquiring entity. These types of EFTPOS transactions do not involve the account provider making taxable supplies of interchange services. The taxable interchange supply for these EFTPOS transactions goes in the 'opposite direction' to other taxable supplies of interchange services in relation to other EFTPOS transactions, scheme debit and BPAY.

25. Table 2 of this Ruling summarises how in some cases EFTPOS taxable supplies of interchange services are made by the acquiring entity.[17]

Table 2: supplies of interchange services made by the acquiring entity for certain EFTPOS transactions



26. The examples in this Ruling are based on the factual circumstances at the time of the issue of the Ruling, in that the

[17] Table 2 of this Ruling does not include supplies made by the merchant to the account holder. The GST treatment of debit card surcharges charged by merchants is explained in Goods and Services Tax Ruling GSTR 2014/2 *Goods and services tax: treatment of ATM service fees, credit card surcharges and debit card surcharges*.

examples of transactions in paragraph 18 are the only ones in which there was an interchange fee in exchange for a taxable supply made by the account provider.

Ruling

Determining the extent to which an acquisition relates to the making of input taxed supplies

27. Section 11-15 contains a positive test in subsection 11-15(1) (that the thing is acquired in carrying on the entity's enterprise) and a negative test in subsection 11-15(2).[18]

28. Paragraph 11-15(2)(a) specifically focuses on the relationship between an acquisition and the making of supplies that would be input taxed, by precluding an acquisition from being for a creditable purpose to the extent that it relates to the making of supplies that would be input taxed.

29. GSTR 2008/1 sets out the principles for establishing a relevant connection to supplies for these purposes. The connection may be direct, or indirect, substantial or real. It must be relevant and usually a remote connection would not suffice.[19] The required connection has also been described as 'sufficient and material', which would include a 'direct and immediate' connection.[20] In this Ruling, we refer to the required connection as a 'real and substantial connection' or a 'relevant connection' interchangeably.

30. Determining whether there is a relevant connection between an acquisition and the making of supplies that would be input taxed requires an objective assessment of the surrounding facts and circumstances to determine whether the acquisition is used or intended to be used in making those supplies.[21]

31. If an acquisition only has a relevant connection to the making of input taxed supplies, paragraph 11-15(2)(a) precludes the acquisition from being for a creditable purpose. If an acquisition does not have a relevant connection to the making of input taxed supplies, it is solely for a creditable purpose.[22]

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[18] See *HP Mercantile Pty Limited v Commissioner of Taxation* [2005] FCAFC 126 (*HP Mercantile*) at [21] and *AXA Asia Pacific Holdings Limited v Commissioner of Taxation* [2008] FCA 1834 (*AXA*) at [124] and paragraphs 32 to 35 of GSTR 2008/1.

[19] *HP Mercantile* at [35]; paragraphs 113 and 118 of GSTR 2008/1.

[20] *Rio Tinto Services Ltd v Commissioner of Taxation* [2015] FCA 94 (*Rio Tinto – first instance*) at [26] and [33].

[21] See also paragraph 119 of GSTR 2008/1.

[22] Subject to the other requirements in section 11-15 being satisfied.

32. If an acquisition has a relevant connection to both making input taxed supplies and to making taxable or GST-free supplies, it is partly for a creditable purpose.[23]

33. In *AXA* it was stated at [124] that:

> The expression "the acquisition relates to supplies that would be input taxed" in para (a) of s11-15(2) is likewise objective: it refers to a relatedness as a matter of objective fact between an acquisition and a supply.[24]

It is clear from that statement that applying paragraph 11-15(2)(a) requires an objective assessment of the facts to determine if a relevant connection exists.[25]

34. An approach that looks through to the subjective intention or actual purpose for making the acquisition will be inconsistent with paragraph 11-15(2)(a).[26] Further contextual support for this position can be found in subsection 11-15(5), which provides a specific exception whereby an acquisition that relates to a financial supply consisting of a borrowing will generally be for a creditable purpose if the borrowing relates to making supplies that are not input taxed. This provision would be unnecessary if it were appropriate to consider the purposes for which the borrowing is used.[27]

35. Further, the relationship between an acquisition and the broader enterprise is not determinative.[28] The identification of the relevant connection does not turn upon a characterisation of the purpose, or the occasion of the purpose, of the supplier in the sense of a broader commercial objective of the enterprise.[29] If an objective assessment shows that an acquisition only has a relevant connection to the making of input taxed supplies, the acquisition is not to be apportioned merely because those supplies may also serve a broader commercial objective.[30]

Determining the creditable purpose for acquisitions made by account providers

36. There is no general proposition that all acquisitions in relation to transaction accounts have a relevant connection to both the supply of the transaction account and the supply of interchange services. The application of paragraph 11-15(2)(a) requires the precise identification of the relevant acquisition and a factual enquiry into the

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[23] *Rio Tinto Services Limited v Commissioner of Taxation* [2015] FCAFC 117 (*Rio Tinto – appeal*) at [7]; *HP Mercantile* at [37].
[24] As confirmed in *Rio Tinto - first instance* at [26] and *Rio Tinto - appeal* at [7].
[25] See also GSTR 2008/1.
[26] *AXA* at [122].
[27] See paragraph 191 of GSTR 2008/1.
[28] *Rio Tinto – appeal* at [7], *Rio Tinto – first instance* at [26].
[29] *Rio Tinto – appeal* at [7].
[30] *Rio Tinto – appeal* at [7].

connection between the acquisition and the making of supplies that would be input taxed.[31]

37. In the absence of any other potential supplies, an acquisition in a transaction account business will either:

- not have a relevant connection to the supply of the transaction account. If so, the acquisition is solely for a creditable purpose and apportionment is not required
- only have a relevant connection to the financial supply of the transaction account. If so, the acquisition is for a creditable purpose only to the extent the supply of the transaction account is GST-free
- have a relevant connection to both the financial supply of the transaction account and the taxable supply of interchange services. These acquisitions are partly for a creditable purpose. This includes acquisitions that have a direct connection to making both supplies (including acquisitions with distinct and severable parts that are devoted to particular uses, and which can be allocated between these uses), as well as acquisitions that have an indirect connection to all supplies made in the transaction accounts business.

Transaction accounts where the account provider does not make supplies of interchange services

38. For some transaction accounts, none of the ways in which the account holder can access the account involve the account provider making supplies of interchange services.

39. To the extent that an account provider makes acquisitions to supply these types of transaction accounts, there is no relevant connection to supplies of interchange services. These acquisitions will only have a relevant connection to financial supplies of transaction accounts, and therefore are partly creditable only to the extent that these supplies are GST-free.

Example 1 – acquisition in relation to a transaction account that does not involve the supply of interchange services

40. *Latrice Bank provides a transaction account which is an online savings account. The account is not linked to a debit card, so it cannot be used for scheme debit or EFTPOS purchase transactions. The account also cannot be used for BPAY payments.*

41. *The account holder can access the online savings account via a linked everyday account, which can be either provided by Latrice Bank or another account provider.*

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[31] *Rio Tinto – appeal* at [7].

42. *Given the ways in which the account holder can access the online savings account, Latrice Bank does not make supplies of interchange services in relation to this transaction account.*

43. *To the extent that Latrice Bank makes acquisitions to supply the online savings account, the acquisitions will only have a relevant connection to the financial supply of the transaction account.*

44. *The fact that Latrice Bank may supply interchange services to other entities when an account holder accesses the linked everyday account in some ways is not sufficient to establish a relevant connection between acquisitions made to supply the online savings account and the supply of interchange services.*

Transaction accounts where you do make supplies of interchange services

45. For other accounts, some of the ways in which the account holder can access the transaction account involve the account provider making supplies of interchange services. An example is a transaction account which is linked to a debit card that can be used to initiate scheme debit or EFTPOS purchase transactions, and that can be used to make BPAY payments.

46. To determine how paragraph 11-15(2)(a) applies to acquisitions made to supply these types of transaction accounts, the acquisition must be considered objectively to determine whether it has a relevant connection to the financial supply of the transaction account, the taxable supply of interchange services, or both.

47. Where the acquisition has a relevant connection to both types of supplies, in determining how paragraph 11-15(2)(a) applies, it will be relevant to consider the extent of the connection to interchange supplies. For example, so far as the acquisition relates to ATM withdrawals and other transactions such as those in paragraph 22 of this Ruling, these also do not involve interchange supplies.

Examples

48. Each of the account providers in Examples 2 to 13 of this Ruling supplies a transaction account to which this Ruling applies. Each transaction account can be accessed by the account holder in ways that involve the account provider making interchange supplies. Examples 7, 9, 10, 11 and 13 of this Ruling do not address situations where the account provider is also the acquirer for that transaction.

49. As in paragraph 37 of this Ruling, where an acquisition only has a relevant connection to the financial supply of an account, the extent of creditable purpose is limited to the extent to which this supply is GST-free.

50. The examples are not intended to address every potential variation in individual circumstances, noting in particular that:

- There may be factual variations in the acquisitions or supplies that you make that need to be taken into account when determining the application of paragraph 11-15(2)(a) in your circumstances.
- The examples do not address the application of the reverse charge provisions in Division 84, which may apply if the supply made to the account provider is not connected with Australia.[32]
- The examples do not address how paragraph 11-15(2)(a) applies when an acquisition may also have a relevant connection to other supplies outside of a transaction accounts business. For instance, in Example 11 of this Ruling, a mobile device application may also relate to financial supplies of credit card facilities and home loans.

Example 2 – acquisition to prepare account statements

51. *Borzoi Bank acquires services from Sasparee Limited, which prints and posts statements to Borzoi Bank's account holders.*

52. *The statements include information about the:*

- *account balance and the transactions on the account*
- *account holder's obligations to pay amounts to Borzoi Bank, such as any fees associated with the transaction account.*

53. *Borzoi Bank has statutory obligations to ensure periodic statements are issued to account holders that contain particular information.*

54. *Borzoi Bank acquires the services from Sasparee Limited to help manage their relationship with account holders. The acquisitions have a real and substantial connection to the supply of the transaction account.*

55. *Borzoi Bank supplies interchange services to other entities in relation to some transactions (such as scheme debit card and EFTPOS purchase transactions or BPAY transactions) that are recorded on the statements. However, this fact is not of itself sufficient to establish a real and substantial connection between the acquisition from Sasparee Limited and the supply of interchange services by Borzoi Bank. The relationship between the acquisitions to*

[32] Note that Schedule 2 of PCG 2019/8 provides our risk assessment framework for apportionment of acquisitions in a transaction accounts business, including in relation to determining the extent to which acquisitions relate to the GST-free use of the transaction account, which can be relevant to the application of the reverse charge in Division 84.

prepare account statements and the supply of interchange services is too remote. Objectively, the statements are produced to provide a record of those transactions to the account holder and relate to the financial supply of the transaction account.

56. *Borzoi Bank's acquisitions to prepare account statements only have a relevant connection to the financial supply of the transaction account.*

Example 3 – acquisition of interchange services for cash-out via EFTPOS

57. *Under the payment system operator rules, when Visage Bank's account holders make a cash-out withdrawal, or a combined cash-out withdrawal and purchase transaction at certain merchants via EFTPOS, Visage Bank does not make a taxable supply of interchange services, and instead it acquires interchange services supplied by an acquiring entity.*[33]

58. *These transactions occur when an account holder withdraws cash from their transaction account at these merchants via EFTPOS, either as a stand-alone transaction, or in combination with a purchase transaction.*

59. *The acquisitions of interchange services by Visage Bank for an EFTPOS cash-out withdrawal, or a combined cash-out withdrawal and purchase transaction, enable the account holder to access their transaction account. As there is no taxable supply of interchange services by Visage Bank as the account provider for these transactions, there is no relevant connection between the acquisitions and a taxable supply made by Visage Bank.*

60. *Visage Bank's acquisitions of interchange services only have a relevant connection to the financial supply of the transaction account.*

61. *The same analysis applies when Visage Bank acquires scheme services from a payment system operator to facilitate the EFTPOS cash-out withdrawal.*

Example 4 – acquisition to maintain branch network

62. *Saluki Bank makes acquisitions to maintain its network of branches, including for rent, electricity, repairs and maintenance, cleaning and office equipment. Saluki Bank also acquires labour hire services to meet temporary staffing needs in its branches.*

63. *The branch network is customer-facing, providing a customer service channel for customers of Saluki Bank's retail and business banking products.*

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[33] See paragraphs 24 and 25 of this Ruling for an explanation of EFTPOS interchange services supplied by the acquiring entity, not by the account provider.

64. *To reflect the activities of the branch staff, Saluki Bank allocates a proportion of its branch network costs to its transaction accounts business. The activities of the branch staff in relation to Saluki Bank's transaction accounts include:*

- *assisting with applications for new transaction accounts*
- *assisting with account transactions, such as deposits or withdrawals*
- *providing customer service and assisting with enquiries from account holders.*

65. *These activities of the branch staff help to manage Saluki Bank's relationship with account holders or to initiate transactions that do not involve Saluki Bank making a supply of interchange services. Any relationship between the acquisitions to undertake these activities and taxable supplies of interchange services is too remote.*

66. *The proportion of the branch network costs allocated to the transaction accounts area has a real and substantial connection to the supply of the transaction accounts. There is no real and substantial connection to the supply of interchange services.*

67. *These costs only have a relevant connection to the financial supply of the transaction account.*

Example 5 – acquisition of call centre services

68. *Lowchen Credit Union outsources its account enquiries to a call centre operated by Vizsla Operations Limited.*

69. *Under the agreement, Vizsla Operations Limited must provide customer support within a specified service window. Lowchen Credit Union provides access to its systems so Vizsla Operations Limited staff can process new transaction account applications and resolve account holders' enquiries.*

70. *Similar to a branch, the call centre is customer-facing and its activities help Lowchen Credit Union to manage their relationship with account holders. Any relationship between the acquisitions to undertake these activities that provide customer service to account holders, and taxable supplies of interchange services is too remote.*

71. *The acquisition of call centre services has a real and substantial connection to the financial supply of the transaction accounts. There is no real and substantial connection to the supply of interchange services.*

72. *Lowchen Credit Union's acquisition of call centre services only has a relevant connection to the financial supply of the transaction account.*

Example 6 – acquisition of advertising services from a product comparison website

73. *Product Spotter Limited provides a product comparison website that compares the features of financial products. Teacup Bank has an agreement with Product Spotter Limited where its transaction accounts are included on the website.*

74. *The website compares the features of these transaction accounts with those of similar products, including the relevant interest rates, fees and any introductory offers for new account holders.*

75. *Teacup Bank pays a referral commission to Product Spotter Limited when a new account holder applies for a transaction account after clicking through to Teacup Bank's website. Teacup Bank also pays for sponsored listings, where its products appear at the top of the results for the relevant category of financial product.*

76. *Considered objectively, this acquisition is made to promote Teacup Bank's transaction accounts and is intended for originating these supplies. The acquisition has a real and substantial connection to the supply of the transaction account.*[34]

77. *The acquisitions from Product Spotter Limited do not have a real and substantial connection to any interchange services that Teacup Bank supplies when the new account holder accesses their transaction account in certain ways (such as scheme debit card and EFTPOS purchase transactions or BPAY transactions). This is because the acquisition of the services from Product Spotter Limited is only intended to induce new account holders to apply for a transaction account, in order for Teacup Bank to make the supply of the transaction account.*

78. *Teacup Bank's acquisition of services from Product Spotter Limited only has a real and substantial connection to the financial supply of the transaction account.*

Example 7 – acquisition of scheme services

79. *As an account provider, Chachki Bank pays scheme fees to an operator to participate in a payment system for scheme debit cards. The system operator facilitates the authorisation, clearing and settlement of transactions on behalf of the participants in the system.*[35]

80. *These acquisitions are separate from acquisitions of acquirer scheme services where the fees are paid to the payment system operator by acquiring entities.*

81. *There is a complex fee structure for the payment system operator's services, including card service fees, data processing fees*

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[34] See also paragraph 126 of GSTR 2008/1.

[35] *Visa International Service Association v Reserve Bank of Australia* [2003] FCA 977 at [92].

and transaction dispute fees. Most of these fees are charged per transaction.

82. *The payment system operator provides services in facilitating the authorisation, clearing and settlement of each scheme debit card transaction. Chachki Bank must participate in the payment system and acquire these scheme services to complete a scheme debit card transaction. The scheme debit card transaction results in Chachki Bank providing the account holder with access to their transaction account and supplying interchange services to acquiring entities in that payment system.*

83. *Chachki Bank's acquisitions of scheme services have a real and substantial connection to both the supply of the transaction account and the supply of interchange services.*

84. *The same analysis applies when Chachki Bank acquires equivalent scheme services from other payment system operators, such as for EFTPOS purchase transactions and BPAY.*

Example 8 – acquisition of cheque printing, processing and clearing services

85. *Artois Bank acquires services for cheque printing (including to ensure the cheques meet particular technical specifications to facilitate processing), and services for cheque processing and clearing.*

86. *These acquisitions enable account holders to access their transaction account by drawing and depositing cheques.*

87. *Artois Bank does not make supplies of interchange services in the cheque clearing process. There is no relevant connection between the acquisitions and the supply of interchange services.*

88. *As Artois Bank acquires cheque printing, processing and clearing services to enable account holders to access their transaction accounts by using cheques, these acquisitions only have a relevant connection to the financial supply of the transaction account.*

Example 9 – acquisition of card production services

89. *Basenji Bank acquires card production services so it can provide plastic debit cards to its account holders.*

90. *The cards are multi-network cards which have built-in features and technology so that account holders can access their transaction account in a number of ways. Some of the access methods involve Basenji Bank making supplies of interchange services (for example, EFTPOS and scheme debit purchase transactions) and others do not (for example, withdrawals or deposits using the card at ATMs or branches and EFTPOS cash-out transactions).*

91. *To operate in each payment system, the card must have the built-in features and technology specified by the relevant payment system operator. Basenji Bank's agreements with the operators make these features a condition of their participation in each payment system.*

92. *One way for the account holder accessing their transaction account using the debit card is to present the debit card to a merchant for a scheme debit or EFTPOS purchase transaction. The presentation of the debit card initiates the account holder's access to their transaction account, and also initiates the operation of the payment system, including Basenji Bank's supply of interchange services to acquiring entities in authorising, clearing and settling these transactions.*

93. *As the plastic debit cards need to meet the payment system operators' specifications (including incorporating built-in technology) to perform their function in initiating both the account holder's access to the transaction account and the supply of interchange services, their production has a real and substantial connection to both supplies.*

Example 10 – acquisition of mobile payment services

94. *Paisley Pay provides a digital wallet application for use on certain mobile devices, including mobile phones and wearable devices. Strawberry Bank acquires mobile payment services from Paisley Pay, which enable its account holders to use the digital wallet application to make certain transactions on their transaction accounts. Under the agreement with Paisley Pay, Strawberry Bank remains solely responsible for managing the relationship with its account holders.*

95. *The digital wallet application performs functions that are equivalent to a plastic debit card, as it enables account holders to initiate account transactions in a number of ways. Some of the access methods involve Strawberry Bank making supplies of interchange services (for example, EFTPOS and scheme debit purchase transactions), and others do not (for example, withdrawals or deposits at ATMs and EFTPOS cash-out transactions).*

96. *When the account holder presents the digital wallet application on their mobile device to a merchant for a scheme debit or EFTPOS purchase transaction, this initiates the account holder's access to their transaction account, and also initiates the operation of the payment system, including Strawberry Bank's supply of interchange services to acquiring entities in authorising, clearing and settling these transactions.*

97. *As the digital wallet application is used to initiate transactions that involve Strawberry Bank making a supply of interchange services (for example, EFTPOS and scheme debit purchase transactions), the acquisition of mobile payment services from Paisley Pay has a relevant connection to both the financial supply of the transaction account and the supply of interchange services. This is because the digital wallet application needs to meet the payment system operators' specifications (including incorporating built-in technology) to perform its function in initiating both the account holder's access to the transaction account and the supply of interchange services.*

Example 11 – acquisition of information technology services to maintain a mobile device application for online banking

98. *Lando Bank acquires information technology services to maintain a mobile phone application that allows account holders to do online banking.*

99. *Lando Bank allocates a proportion of these costs to its transaction accounts business.*[36]

100. *The mobile device application enables account holders to:*

- *view their account balance and the details of their transactions*
- *take actions to manage their account (for example, to change their daily payment limit or notify the account provider that they are travelling overseas)*
- *initiate transactions on the account that do not involve Lando Bank making supplies of interchange services – such as where the account holder transfers funds between linked accounts, makes payments to other accounts (such as 'Pay Anyone' payments or payments via the New Payments Platform), or initiates a 'cardless' withdrawal from an ATM*
- *initiate transactions on the account that do involve Lando Bank making supplies of interchange services – such as where the account holder initiates BPAY transactions on their account.*

101. *The mobile device application helps to manage Lando Bank's relationship with account holders. Some of the functions allow the account holder to provide 'self-service' in managing their account, and in that way are analogous to the customer service offered at a branch or call centre.*

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[36] This application may also provide features in relation to other products such as home loans and credit cards, and a proportion of costs would therefore relate to those other supplies made by Lando Bank.

102. *Some functions enable the account holder to view their balance and view a record of the transactions on their account, and in that way are analogous to the provision of an account statement.*

103. *Lando Bank supplies interchange services to other entities in relation to some transactions (such as scheme debit card and EFTPOS purchase transactions or BPAY transactions) that account holders can view using the application. However, this fact is not of itself sufficient to establish a real and substantial connection between these parts of the acquisitions and the supply of interchange services by Lando Bank.*

104. *Other functions of the application enable the account holder to use the application to initiate transactions on their account. Depending on the type of transaction, this may involve the account provider making supplies of interchange services.*

105. *As the application is used to initiate BPAY transactions that involve Lando Bank making a supply of interchange services, the acquisitions have a relevant connection to both the financial supply of the transaction account and the supply of interchange services. This is because the application is used by the account holder to both initiate access to their transaction account, and to initiate the operation of the BPAY payment system, through which the account provider makes supplies of interchange services to the Biller's financial institution.*

Example 12 – acquisition of processing services in managing and operating the transaction account

106. *Havanese Mutual Bank makes acquisitions of processing services that support the operation of its transaction accounts.*

107. *Havanese Mutual Bank undertakes an objective assessment of the processing services it acquires by identifying the specific functions performed by the relevant software applications.*

108. *Havanese Mutual Bank determines that the acquisitions of processing services involve applications and functions that are only intended to manage and operate the account holders' account. For example, this includes posting debits and credits to the account holder's account, calculating and posting fees to the account, and extracting transaction information from the account for use in preparing account statements or to support the display of transactions on an internet banking application.*

109. *These acquisitions relate to managing the account, the relationship with the account holder and to recording the transactions that occur when the account holder accesses their transaction account. There is no real and substantial relationship between these services acquired and the supply of interchange services made to other participants in the payment systems for some of the account holder's transactions.*

110. *The acquisitions made by Havanese Mutual Bank only have a real and substantial connection to the supply of the transaction account.*

Example 13 – acquisition of payment switching services

111. *Following on from Example 12, Havanese Mutual Bank acquires outsourced payment switching services from Monsoon Payment Solutions.*

112. *The function of the payment switch is to act as a gateway to the relevant payment system, as it sends and receives transaction instructions from Havanese Mutual Bank's systems to other participants via the payment system.*

113. *Monsoon Payment Solutions provides payment switch services for transactions via scheme debit cards, EFTPOS, BPAY, direct entry (which includes direct debit, direct credit and 'Pay Anyone' transactions) and the New Payments Platform.*

114. *The acquisition of payment switch services have a real and substantial connection to both the supply of the transaction account and the supply of interchange services. This is because the payment switch services are integral to both receiving account holder's requests for access to their transaction account via the relevant payment systems, and to making taxable supplies of interchange services in relation to scheme debit, EFTPOS and BPAY transactions.*

Date of effect

115. This Ruling applies from the start of your first tax period commencing on or after 1 October 2020.

Commissioner of Taxation
25 September 2020

Appendix – Detailed contents list

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References

Previous draft:

Previously released in draft form as GSTR 2019/D1

Related Rulings/Determinations:

TR 2006/10; GSTR 2003/8; GSTR 2006/3; GSTR 2008/1; GSTR 2014/2; GSTD 2002/2; GSTR 2019/2; GSTD 2020/1

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Cases relied on:

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- AXA Asia Pacific Holdings Limited v Commissioner of Taxation [2008] FCA 1834; (2008) 173 FCR 500; 2008 ATC 20-074; (2008) 71 ATR 1
- Commissioner of Taxation v MBI Properties Pty Ltd [2014] HCA 49; 254 CLR 376; 2014 ATC 20-474; (2014) 92 ATR 241
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- Rio Tinto Services Ltd v Commissioner of Taxation [2015] FCA 94; 98 ATR 390; 2015 ATC 20-489
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- Visa International Service Association v Reserve Bank of Australia [2003] FCA 977; 131 FCR 300

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- PCG 2017/15
- PCG 2019/8

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