


# ***PCG 2016/18 - GST and countertrade transactions***

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## GST and countertrade transactions

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### Relying on this Guideline

*This Practical Compliance Guideline sets out a practical administration approach to assist taxpayers in complying with relevant tax laws. Provided you follow this Guideline in good faith, the Commissioner will administer the law in accordance with this approach.*

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### What this Guideline is about

1. This Guideline is concerned with 'countertrade' transactions. In this context, 'countertrade' refers to the direct exchange of things by one entity for things provided by another entity, and does not include transactions where any of the consideration is monetary.
2. Each entity to a countertrade transaction makes a supply and an acquisition. Goods and services tax (GST) registered entities that enter into countertrade transactions are required under the GST law to record and report those transactions in the same manner as other supplies and acquisitions.
3. For GST purposes, in most circumstances the things exchanged by parties acting at arm's length are taken to have the same GST-inclusive market value.<sup>1</sup> The amount of the GST payable and the GST credit entitlement on such a countertrade transaction would be equal to 1/11<sup>th</sup> of that GST-inclusive market value. In practice, this means that an entity engaging in these countertrade transactions will pay an amount of GST that equals the amount of its GST credit entitlement.

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<sup>1</sup> See paragraph 19 of Goods and Services Tax Ruling GSTR 2001/6 *Goods and services tax: non-monetary consideration*.

4. The Commissioner is aware of the practical problems of market valuation in the context of these transactions, as well as the difficulties of accommodating countertrade in the natural accounting systems of entities that do not usually engage in such transactions. Compliance and administration costs in these circumstances may be unnecessarily burdensome for transactions that have no net revenue effect. For this reason, this Guideline outlines a practical compliance approach for certain countertrade transactions that are GST neutral.

5. This Guideline only applies in relation to GST and is not applicable for any other purpose or in relation to any other tax obligations and entitlements.

### **Date of effect**

6. The Commissioner will adopt the compliance approach outlined in this Guideline from the date of issue.

### **Which entities are covered by this Guideline?**

7. The Commissioner will apply the compliance approach outlined in this Guideline to an entity that has entered into a countertrade transaction as part of carrying on its enterprise, provided that countertrade transactions account for no more than approximately 10% of the entity's total number of supplies.<sup>2</sup>

8. This Guideline does not apply to countertrade transactions between members of a 'barter scheme' conducted by a barter or trade exchange.<sup>3</sup>

9. In this Guideline, 'you' means an entity as defined in the *A New Tax System (Goods and Services Tax Act 1999 (GST Act)*.<sup>4</sup> In relation to a GST group, 'you' means a member of the GST group. In relation to a joint venture, 'you' means the joint venture participant.

### **The Commissioner's compliance approach**

10. The Commissioner will not apply resources to verify your compliance with your GST reporting obligations for a countertrade transaction<sup>5</sup>, in these circumstances:

- (a) you are registered for GST
- (b) you engage in a countertrade transaction, under which you directly exchange things with another entity, at arm's length, without any monetary consideration
- (c) the other entity to the countertrade transaction is also registered for GST

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<sup>2</sup> Each countertrade transaction will count as one transaction towards your 10% threshold. You can calculate whether your countertrade transactions are under the 10% threshold by comparing the total number of countertrade transactions to the total number of supplies made over a year. To do this comparison you can use data from:

- (a) the previous financial year
- (b) the projected financial year, or
- (c) a fair and reasonable estimate based on the available data.

<sup>3</sup> For a detailed discussion on how the GST law applies to transactions between members of a barter scheme conducted by a trade exchange refer to Goods and Services Tax Ruling GSTR 2003/14 *Goods and services tax: the GST implications of transactions between members of a barter scheme conducted by a trade exchange*.

<sup>4</sup> Refer to Division 184 of the GST Act for the meaning of 'entity'.

<sup>5</sup> The Commissioner may still undertake compliance action to verify whether you meet the requirements of this Guideline in relation to your countertrade transactions.

- (d) both entities made wholly taxable supplies to each other, with the amount of GST payable being 1/11th of the GST-inclusive market value of those taxable supplies
- (e) you made a wholly creditable acquisition for which you are entitled to a full GST credit
- (f) the net effect of the countertrade transaction would be GST neutral<sup>6</sup> to you in the same tax period because:
  - (i) you and the other entity to the countertrade transaction agree that the GST-inclusive market values of your countertrade supplies are equal, or
  - (ii) where you and the other entity to the countertrade transaction do not agree on the GST-inclusive market value, you calculate your GST payable and your corresponding GST credit based on the GST-inclusive market value of your own supply.
- (g) you have records that show:
  - (i) when the countertrade transaction was entered into and occurred
  - (ii) what was exchanged (what was supplied and acquired)
  - (iii) the identity and ABN of the other entity
  - (iv) the GST-inclusive market value that you and the other party agreed on (if applicable), and
- (h) there is no evidence of fraud or evasion.

### **Example 1**

11. A hotel chain provided commercial residential accommodation to a media production company that used the accommodation for work purposes. In return the media company provided advertising to the hotel chain.

12. Countertrade transactions accounted for less than 10% of the total number of supplies for both the hotel and the media production company respectively.

13. Both the hotel chain and media company were registered for GST and confirmed to each other that their supplies were wholly taxable; and each entity made a fully creditable acquisition of the relevant supply.

14. The entities agree that the GST-inclusive market values of their supplies under the countertrade transaction are equal. The entities would each have an amount of GST payable equal to the amount of GST credit they can each claim. This countertrade transaction is GST neutral to each entity in the same tax period (however, the entities may have different tax periods). The entities have records that meet the requirements in paragraph 10(g) of this Guideline and there is no evidence of fraud or evasion.

15. The Commissioner would not devote compliance resources to verify either entity's compliance with its GST reporting obligations in relation to this countertrade transaction.

### **Example 1a**

16. Assume the same facts as in *Example 1* but the hotel chain and the media company did not agree on the GST-inclusive market value of their supplies under the countertrade transaction.

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<sup>6</sup> GST neutral to you means that the amount of GST payable and GST credit for a countertrade transaction are equal in the same tax period.

17. Each entity calculates their GST payable and GST credit based on the GST-inclusive market value of their own supply (noting, the entities may have different market values).

18. The countertrade transaction would be GST neutral in the same tax period to each entity, that is, the GST payable and GST credit for each entity in relation to the transaction are equal (however, the entities may have different tax periods).

19. If the entities were audited the Commissioner would apply the compliance approach in this Guideline and would not devote compliance resources to verify either entity's compliance with its GST reporting obligations.

### **Example 2**

20. A cabinetmaker supplies new cabinetry to the home of an interior designer. The cabinetry is installed in a home office and also in the home's living area. In return the designer supplies design services.

21. The cabinetmaker and the interior designer are both registered for GST and are sole traders. The supply by the cabinetmaker is a wholly taxable supply and the supply by the interior designer is also a wholly taxable supply – the parties have declared this to each other.

22. Countertrade transactions account for less than 10% of the total number of supplies for both the cabinetmaker and the interior designer respectively.

23. There is an exchange of emails that records the transaction. The parties agree that the price of their supplies to each other under the transaction is \$3,300. There is no evidence of fraud or evasion.

24. The cabinetmaker uses the design services for a fully creditable purpose in the course of their enterprise, and makes a fully creditable acquisition of those services. However the interior designer acquires the cabinetry partly for a creditable purpose, because some of the cabinetry is installed in the designer's private living area. Therefore the designer does not make a wholly creditable acquisition of the cabinetry.

25. The Commissioner would apply this compliance approach to the cabinetmaker for this countertrade transaction because the requirements of this Guideline are met.

26. The Commissioner would not apply this compliance approach to the interior designer because they do not meet the requirements of this Guideline. Specifically, they have not acquired the cabinetry for a wholly creditable purpose.

### **Example 3**

27. A fresh fruit wholesaler supplies boxes of fresh fruit to an electrician in return for the electrician maintaining the wholesaler's cooling systems in its warehouse. The fresh fruit wholesaler and the electrician are both registered for GST.

28. Countertrade transactions account for less than 10% of the total number of supplies for both the fresh fruit wholesaler and the electrician respectively.

29. Emails record the dates and times when the electrician will undertake servicing and that boxes of fruit will be exchanged in return.

30. The fresh fruit wholesaler is making a GST-free supply of fruit to the electrician who is therefore not making a wholly creditable acquisition (as the electrician is not entitled to any GST credits for the fruit).

31. In this instance, the Commissioner would not follow this compliance approach because the requirements in this Guideline are not satisfied.

## References

ATOlaw topic(s)	
Legislative references	ANTS(GST)A 1999 ANTS(GST)A 1999 Div 184
Related Rulings/Determinations	GSTR 2001/6 GSTR 2003/14
ATO references	1-8L1L9BH
BSL	ITX

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