


GSTD 2001/D1 - Goods and Services Tax: what are the requirements for a particular document to be treated as an adjustment note when an adjustment arises from a payment made by a third party?

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This document has been finalised.

Draft Goods and Services Tax Determination

Goods and Services Tax: what are the requirements for a particular document to be treated as an adjustment note when an adjustment arises from a payment made by a third party?

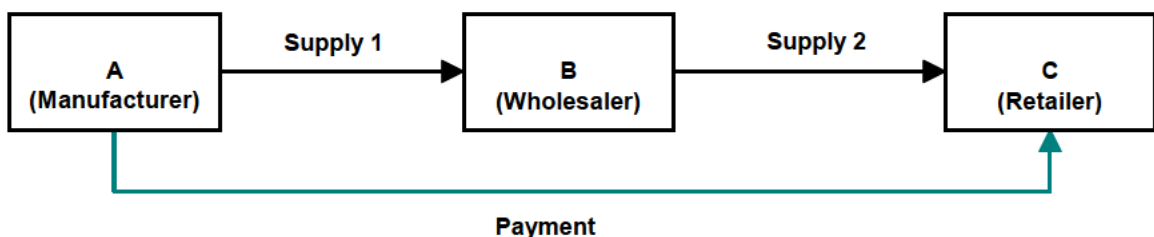
Preamble

Draft Goods and Services Tax Determinations (DGSTDs) present the preliminary, though considered, views of the Australian Taxation Office. DGSTDs should not be relied on; only final Goods and Services Tax Determinations represent authoritative statements by the Australian Taxation Office.

1. A document is treated as an adjustment note when an adjustment arises from a payment made by a third party, if that document satisfies the requirements in paragraph 8 of this Determination.

Background

2. Where an entity makes a supply to a recipient, a different entity (a third party) sometimes makes a payment to the recipient in respect of that supply. A common example of this situation is where a manufacturer makes a payment¹ (for example, a volume rebate) to a retailer for a supply made by a wholesaler to the retailer, as illustrated in the following diagram.²



3. An adjustment event³ arising from a payment by a third party occurs if it relates to:

¹ In this Taxation Determination, a payment includes the giving of a rebate.

² Note that more than three entities may be in the supply chain.

³ Under paragraph 19-10(1)(b) of *A New Tax System (Goods and Services Tax) Act 1999*, 'An adjustment event is any event which has the effect of ... changing the consideration for a supply or acquisition...'

- the supply by the entity making the payment (the ‘payer’ (entity A in the diagram)) - because the payment has the effect of reducing the consideration the payer receives for that supply (Supply 1); and
- the acquisition by the entity receiving the payment (the ‘payee’ (entity C in the diagram)) - because the payment has the effect of reducing the consideration the payee provides for that acquisition (Supply 2).⁴

4. Other entities in the supply chain between the payer and payee (for example, entity B in the diagram at paragraph 2) are not directly affected for GST purposes by the payment. Therefore, an adjustment event does not occur for the acquisitions and the supplies made by these intermediate entities.

5. Where such a payment is an adjustment event under Division 19 of the *A New Tax System (Goods and Services Tax) Act 1999* (the GST Act), an adjustment may arise in relation to the supply made by the payer (A) and the acquisition made by the payee (C).⁵

6. If an adjustment arises for the taxable supply made by the payer (A), then the payer is required to issue an adjustment note to the recipient of that supply (B).⁶ An adjustment note is a document that:⁷

- is issued by the maker of the taxable supply to the recipient of that supply; and
- states the Australian Business Number (ABN) of the entity that issues the document; and
- contains such other information as the Commissioner determines in writing (these additional requirements are set out in the *A New Tax System (Goods and Services Tax) Act 1999 Adjustment Note Information Requirements Determination 2000*⁸ (Adjustment Note Determination)); and
- is in the approved form.

7. We recognise that the adjustment note requirements set out in paragraph 6 are not appropriate for adjustments arising in third party payment situations such as those shown in the diagram at paragraph 2. This is because the recipient of the supply (B) made by the payer (A) is not a party to the payment to the payee (C) and may have no knowledge of the payment. In addition, a document issued by the payer (A) to the payee (C) for the adjustment arising from the payment is not an adjustment note, because the payee is not the recipient of the supply made by the payer. While the requirements for an adjustment note may not be met, the Commissioner may treat as an adjustment note a particular document that is not an adjustment note.⁹

Requirements for a particular document to be treated as an adjustment note

8. For adjustment events arising from payments by third parties, the Commissioner treats as an adjustment note a particular document that:

⁴ See paragraphs 40 to 42 of Goods and Services Tax Ruling GSTR 2000/19 (making adjustments under Division 19 for adjustment events) for an explanation that the adjustment event only affects the payer and the payee.

⁵ Section 19-40 and section 19-70 of the GST Act. An adjustment does not arise where the adjustment event occurs in the same tax period as the GST and input tax credits are attributed.

⁶ Subsection 29-75(2) of the GST Act.

⁷ Subsection 29-75(1) of the GST Act. Goods and Services Tax Ruling GSTR 2000/1 (adjustment notes) explains the Commissioner’s requirements for adjustment notes.

⁸ Schedule 1 of Goods and Services Tax Ruling GSTR 2000/1.

⁹ Subsection 29-75(1) of the GST Act.

- is issued by the payer (A) to the payee (C); and
- shows the ABN of the payer (A); and
- satisfies the information requirements in clauses 2 and 3 of the Adjustment Note Determination¹⁰ with the following five modifications. That is, the document:
 - (a) shows the name of the payee (C), where the price of the supply made by the payer (A) to the recipient of that supply (B) is \$1,000 or more (instead of showing the name of the recipient of the payer's supply (B));¹¹ and
 - (b) shows the address or ABN of the payee (C), where the price of the supply made by the payer (A) to the recipient of that supply (B) is \$1,000 or more (instead of showing the address or ABN of the recipient of the payer's supply (B));¹² and
 - (c) shows the amount of the payment made by the payer (A) to the payee (C) (instead of showing the difference in the price of the supply before and after the adjustment event);¹³ and
 - (d) states either:
 - that the payment includes GST (instead of stating that the difference in the price includes GST);¹⁴ or
 - the amount of GST included in the payment (instead of the amount of the adjustment to the GST payable); and
 - (e) shows the GST exclusive amount of the payment where the amount of GST payable is less than 1/11 of the payment (instead of showing the difference in the GST exclusive price of the supply before and after the adjustment event).¹⁵

9. Since the Commissioner treats such a document as an adjustment note, a payer who holds a copy of a document that satisfies the requirements in paragraph 8 may claim a decreasing adjustment arising from the payment to the payee.¹⁶ Also, the payee needs to make an increasing adjustment arising from the receipt of the payment from the payer.¹⁷

Recipient created tax invoices and requirements for adjustment notes

10. In the diagram at paragraph 2, entity B may have issued a recipient created tax invoice for the supply that entity A made to it. Where an adjustment arises from an adjustment event in respect of that supply, entity A would not issue an adjustment note, as entity B would usually issue a recipient created adjustment note.¹⁸

11. Where an adjustment arises as a result of a payment between the payer (A) and the payee (C), we recognise that since entity B is not a party to the payment by A to C, it is not

¹⁰ For example, the Adjustment Note Determination requires the words 'Adjustment Note' stated prominently, the name of the payer or the agent of the payer, the issue date and a brief explanation of the reason for the adjustment.

¹¹ Paragraph 2(c) of the Adjustment Note Determination.

¹² Paragraph 2(d) of the Adjustment Note Determination.

¹³ Paragraphs 2(f) and 3(f) of the Adjustment Note Determination.

¹⁴ Paragraphs 2(h) and 3(h) of the Adjustment Note Determination.

¹⁵ Paragraphs 2(j) and 3(j) of the Adjustment Note Determination.

¹⁶ Subsection 29-20(3) of the GST Act.

¹⁷ Section 19-80 of the GST Act.

¹⁸ Subsection 29-75(2) of the GST Act.

appropriate for entity B to issue the adjustment note. For this reason, the Commissioner treats as an adjustment note a particular document issued by A to C that satisfies the requirements of paragraph 8. Also, A does not need to include the words 'Recipient Created' on the particular document that it issues to C.

Example 1 – more than three parties in the supply chain:

12. *Paul (a manufacturer) sells widgets to a distributor. The distributor sells the widgets to a wholesaler who sells them to Colin (a retailer), who then sells the widgets to consumers. Paul later pays a volume rebate to Colin based on the quantity of widgets that Colin purchased from the wholesaler. A decreasing adjustment arises for Paul and an increasing adjustment arises for Colin. Paul includes with the payment to Colin a document that satisfies the requirements specified in paragraph 8. This document is treated as an adjustment note that allows Paul to claim a decreasing adjustment. Colin makes an increasing adjustment.*

Example 2 – recipient created tax invoice:

13. *Using the diagram in paragraph 2, an adjustment event occurs in relation to a supply made by A to B and in relation to an acquisition by C from B. In this example, B issues a recipient created tax invoice to A for the supply A made to B. A includes with the payment to C a document that meets the requirements specified in paragraph 8. This document is treated as an adjustment note that allows A to claim a decreasing adjustment. C makes an increasing adjustment.*

Your comments

14. We invite you to comment on this Draft Goods and Services Tax Determination. We are allowing 4 weeks for comments before we finalise the Determination. If you want your comments considered, please provide them to us within this period.

Comments by Date: 30 November 2001

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Commissioner of Taxation

31 October 2001

Previously released:

Not previously released in draft form

Related Rulings/Determinations

GSTR 2000/1; GSTR 2000/19

Subject references:

- goods and services tax
- third party payment

- adjustment event
- adjustment note
- adjustment note determination
- adjustment
- recipient created tax invoice
- recipient created adjustment note

Legislative references:

- ANTS (GST) A99 19-10(1)(b)
- ANTS (GST) A99 19-40
- ANTS (GST) A99 19-70
- ANTS (GST) A99 19-80
- ANTS (GST) A99 29-20(3)
- ANTS (GST) A99 29-75(1)
- ANTS (GST) A99 29-75(2)

ATO references:

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