GSTD 2002/D3 - Goods and Services Tax: how do I account for GST when I supply taxable goods, non-taxable goods and delivery services together?

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This document has been finalised.

Draft Goods and Services Tax Determination

Goods and Services Tax: how do I account for GST when I supply taxable goods, non-taxable goods and delivery services together?

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.

Background

1. Delivery services are often associated with the supply of goods.[1] Where you supply goods delivered to an address specified by your customers, the facts will determine whether the goods and delivery are separate supplies, separately identifiable parts of a mixed supply, or a composite supply of delivered goods.[2]

Supplies of goods and delivery services

2. You may make supplies of goods and delivery, or arranging delivery, under separate contractual arrangements. Alternatively, you may supply goods and a separate service of delivery under one contract where the goods and the delivery service are separately identifiable parts of a mixed supply. We consider that delivery is a separately identifiable part of a mixed supply where it is significant[3] and could realistically be made as a separate supply. A delivery service is significant where it is an aim in itself. That is, your customers have a genuine choice under the contract about whether you deliver their goods. Such a choice is indicated where:

- your customers are not obliged to use your delivery service; and

[1] 'Delivery' can include a range of services such as selecting, packing, handling, administration and actual physical delivery. This will depend on the agreement between the parties. For example, internet grocers often advertise that they are supplying selection and packing as well as the delivery.

[2] Goods and Services Tax Ruling GSTR 2001/8, at paragraphs 40 to 69, discusses how to differentiate between mixed and composite supplies.

[3] GSTR 2001/8, at paragraphs 45 to 54, discusses where parts of a supply are separately recognised because of their significance in the supply.

- you provide reasonable access, at no extra charge, to customers who choose to make their own arrangements to collect the goods.[4]

3. Optional delivery services to personal or phone order shoppers are often provided by suppliers such as supermarkets, furniture and electrical stores. These services are treated separately for GST.

Delivered goods

4. You supply delivered goods where the delivery is integral, ancillary or incidental to the supply of the goods.[5] This will be a composite supply. In these cases, you contract to supply delivered goods only, and not a delivery service in addition to the goods. The delivery is necessary for your customer to enjoy the goods. It is not an end in itself, but merely contributes to the proper performance of the contract to supply the goods. That is, to fulfil the contract for the supply of the goods, the supplier has to deliver them and remains responsible for them until they are delivered.

5. Many internet and mail order suppliers supply delivered goods. They make an integrated supply of delivered goods that includes the selection, packing and delivery of the customer's order.[6] These aspects of the supply are not optional. While convenient for the customer, the selection, packing and delivery are not considered to be of such significance that they are separately identifiable parts of the supply.[7] In such cases the delivery service is integral, ancillary or incidental to the composite supply of delivered goods.

Calculating the GST

Supplies of goods and delivery services

6. Where a delivery service is a separate supply, or a separate part of a mixed supply, the supply of the service will be taxable[8] regardless of whether the goods supplied are taxable or GST-free.[9]

Supplies of delivered goods

7. Where you supply delivered goods and it is your practice to charge a separate fee for delivery, you will need to apportion the fee if you supply both taxable and GST-free goods. The GST payable is:

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[4] A delivery service may be a significant part of a mixed supply even if no separate amount is charged for delivery.

[5] GSTR 2001/8, at paragraph 59, sets out some factors that indicate that a part may be integral, ancillary or incidental to a dominant part.

[6] The existence of a separate charge for delivery does not, by itself, mean that the delivery is a significant part of the supply.

[7] Where services other than selection, packing and delivery are provided, the facts may indicate that those other services are significant.

[8] Provided that the requirements of section 9-5 of the *A New Tax System (Goods and Services Tax) Act 1999* are met. Some supplies of transport of goods are GST-free under Division 38.

[9] In some cases, a supplier may supply a delivery service for no extra consideration, for example, for an elderly customer. In such cases, the supply of the delivery service will not be taxable if there is genuinely no consideration.

Character of the goods supplied	GST payable
The goods supplied are all taxable.	1/11 of the total consideration, including the delivery fee. No apportionment is required.
The goods supplied are all GST-free.	Nil.
The supply includes both taxable and GST-free goods.[10]	1/11 of the price of the taxable goods, plus 1/11 of the portion of the delivery fee that is referable to the taxable goods.[11]

Example 1 - delivered goods, no delivery choice, various charges

8. *Kay's Pharmacy is an Australian internet supplier of prescription medication and general pharmacy lines. Orders are made by internet or fax. Kay's provides both taxable and GST-free goods. Delivery is to any address in Australia. A person over 18 years of age must take delivery of the goods. A GST inclusive 're-delivery fee' of $12 applies if no one is able to accept the order. Kay's delivery prices are*:

Metropolitan area	Regional or country area	Orders over $100
$5.50 for orders under 4kg	$6.60 for orders under 2kg	Nil
At cost for orders over 4kg	At cost for orders over 2kg	Nil

9. *Mirka orders disposable nappies and cosmetics, both taxable, and GST-free medication. The order is for $180. The delivery service is integral, ancillary or incidental to the supply of the goods. Mirka was not at home when Kay's first attempted to deliver the goods. When Kay's successfully re-delivers the order, Mirka is invoiced for:*

Goods	Price	10% GST included
Medication	$59.00	Nil (GST-free supply)
Disposable nappies	$66.00	$6.00
Cosmetics	$55.00	$5.00
Delivery	$12.00	$0.73[12]
Total	**$192.00**	**$11.73**

Kay's GST liability on the supply to Mirka is $11.73.

10. *Lia orders the same goods. She is home when Kay's delivers the goods. She is invoiced for:*

Goods	Price	10% GST included
Medication	$59.00	Nil (GST-free supply)
Disposable nappies	$66.00	$6.00
Cosmetics	$55.00	$5.00
Total	**$180.00**	**$11.00**

[10] GSTR 2001/8, at paragraphs 40 to 69, explains the characteristics of mixed supplies.
[11] GSTR 2001/8, at paragraphs 92 to 111, provides guidelines on how to make a reasonable apportionment.
[12] 1/11 x $12 x (66 + 55)/180.

Kay's GST liability on the supply to Lia is $11.00.

Example 2 - optional delivery, separate charge

11. *Lay's hires out medical aids and appliances. They have a showroom and a website. They also issue catalogues to hospitals and medical centres.*

12. *The goods are supplied to customers at the showroom. Alternatively, Lay's will deliver at the customer's request. Their GST inclusive delivery charges are:*

- *in the metropolitan area a flat fee of $5.50 applies, irrespective of how many appliances are delivered; and*
- *outside the metropolitan area the fee is $15.*

13. *Felix hires a wheelchair and ventilator, both GST-free. Felix lives outside the metropolitan area and he arranges for Lay's to deliver the appliances to his home. He is invoiced for:*

Goods	Price	10% GST included
4 weeks hire wheelchair	$60.00	Nil (GST-free supply)
4 weeks hire ventilator	$50.00	Nil (GST-free supply)
Delivery	$15.00	$1.36
Total	**$125.00**	**$1.36**

14. *Lay's is making separate supplies of goods and a delivery service. The goods are GST-free, but the delivery service is taxable. Lay's GST liability on the supply to Felix is $1.36.*

Example 3 - packing fee, delivery choice, separate charges

15. *May's Groceries is an internet supplier of groceries to the Sydney region. Goods can only be ordered by internet or fax. Customers can choose to have their order:*

- *packed (charge - $5 plus GST) for collection at one of May's depots;*
- *packed (charge - $5 plus GST) and delivered to any location within 25km of the Sydney GPO (delivery fee - $10 plus GST);* or
- *packed (charge - $5 plus GST) and delivered to any location between 25km and 75km from the Sydney GPO (delivery fee - $10 plus $3 for each additional 5km outside the 25km boundary - plus GST).*

16. *May's marketing promotes the reliability and convenience of having quality goods selected and packed by specially trained staff. This service is integral to the goods that May's contracts to provide. The delivery service is an optional extra that May's does not provide unless requested by the customer.*

17. *Anwar lives 10km from the GPO. He orders $120 worth of GST-free fruit and vegetables, and $110 worth of taxable groceries to be delivered to his home. He is invoiced for:*

Goods	Price	10% GST included
Fruit and vegetables	$120.00	Nil (GST-free supply)
Groceries	$110.00	$10.00
Packing	$5.24	$0.24[13]
Delivery	$11.00	$1.00
Total	**$246.24**	**$11.24**

18. *May's delivery service is a separately identifiable part of Anwar's supply and is taxable. However, the packing service is merely integral, ancillary or incidental to the supply of the goods. The packing charge is apportioned across the taxable and GST-free goods. May's GST liability on the supply to Anwar is $11.24.*

Your comments

19. We invite you to comment on this Draft Goods and Services Tax Determination. We are allowing 6 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: **15 August 2002**

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Previous Draft:
Not previously released in draft form

Related Rulings/Determinations:
GSTR 2001/8

Subject references:
- ancillary
- apportionment
- delivered goods
- delivery
- goods & services tax
- GST free
- incidental

[13] 10% x $5 x 110/230.

– integral
– mixed supplies
– separately identifiable
– supply
– taxable supply

Legislative references:
– ANTS(GST)A 1999 9-5
– ANTS(GST)A 1999 Div 38

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