


GSTR 2000/D11 - Goods and services tax: when consideration is provided and received for various payment instruments

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This document has been finalised.



Draft Goods and Services Tax Ruling

Goods and services tax: when consideration is provided and received for various payment instruments

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Preamble

Draft Taxation Rulings (DTRs) represent the preliminary, though considered, views of the Australian Taxation Office. DTRs may not be relied on by taxation officers, taxpayers and practitioners. It is only final Taxation Rulings that represent authoritative statements by the Australian Taxation Office of its stance on the particular matters covered in the Ruling.

What this Ruling is about

1. This Ruling describes the various payment instruments that may be used in transactions, and provides guidelines to help you decide when you have provided or received consideration for a supply.
2. Section 29-5 of the *A New Tax System (Goods and Services Tax) Act 1999* (the GST Act) sets out the rules for attributing GST payable by you on your taxable supplies. Section 29-10 of the GST Act sets out the rules for attributing input tax credits to which you are entitled for your creditable acquisitions. All legislative references in this Ruling are to the GST Act unless otherwise stated.
3. This Ruling does not discuss adjustment events which may arise following the provision or receipt of consideration.
4. This Ruling does not deal with financial supplies.
5. This Ruling deals only with the timing of consideration in relation to vouchers. General issues in relation to vouchers will be dealt with in a separate Ruling.
6. This Ruling deals only with the timing of consideration in relation to transactions that involve the use of barter arrangements. General issues in relation to barter will be dealt with in separate Ruling.

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Date of effect

7. When this ruling is finalised it will take effect on and from 8 July 1999 (the date of Royal Assent to the GST legislation).

Context for various payment instruments

Consideration

8. Before you can attribute GST in relation to taxable supplies that you make, it is necessary to determine whether a payment received in relation to a supply is consideration for the supply.

9. Similarly, you can only attribute the input tax credits in relation to your creditable acquisitions where the payment made in relation to an acquisition is consideration for the acquisition.

10. The dictionary to the GST Act defines 'consideration, for a supply or acquisition' as 'any consideration, within the meaning given by section 9-15, in connection with the supply or acquisition.'¹

11. Section 9-15 expands on the meaning of 'consideration for a supply'. Consideration includes any payment, act or forbearance in connection with, in response to, or for the inducement of a supply of anything.² Consideration may be provided voluntarily, or by someone other than the recipient of the supply.³

Attributing the GST on your taxable supplies

Where you account on a basis other than cash

12. Subsection 29-5(1) attributes GST on your taxable supplies to the earlier of the tax period in which:

- any of the consideration for the supply is received; or
- an invoice for the supply is issued.

Where you account on a cash basis

13. Subsection 29-5(2) attributes GST on your taxable supplies to the tax period in which you receive consideration for the supply but only to the extent that the consideration is received in that tax period.

¹ Section 195-1.

² Subsection 9-15(1).

³ Subsection 9-15(2).

Attributing the input tax credits for your creditable acquisitions.***Where you account on a basis other than cash***

14. Subsection 29-10 (1) attributes the input tax credit to which you are entitled for a creditable acquisition to the earlier of the tax period in which:

- you provide any of the consideration for the acquisition; or
- an invoice for the acquisition is issued .

Where you account on a cash basis

15. Subsection 29-10(2) attributes the input tax credit to which you are entitled for a creditable acquisition to the tax period in which you provide consideration but only to the extent that you provided the consideration in that tax period.

16. Determining the accounting period in which consideration is provided or received is therefore central to attributing GST and input tax credits correctly.

Ruling and Explanations

Cash

17. When a payment is made by tendering Australian currency, consideration is both provided and received when the payment is tendered. Upon full payment, the amount owing of GST is discharged by the supplier.

Cheque

18. When payment is made by way of cheque, the recipient of the supply provides consideration when the cheque is either handed or posted to the supplier. Consideration is received by the supplier when the cheque is received, not when it is banked, or cleared.

19. Courts have considered the issue of when consideration in the form of a cheque is received in the income tax context, and have decided that the payment is received when the cheque is received.⁴

20. The recipient of the supply provides payment when the cheque leaves his/her possession. This is either when the cheque is handed to the supplier, or the supplier's agent, or when it is posted.

⁴ *Case D7 72 ATC 38; Case D62 72 ATC 376; (1972) 18 CTBR (NS) Case 31*

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21. When a payment is made by way of a post-dated cheque, consideration is both provided and received on the date stated on the cheque.⁵ A post dated cheque can be negotiated as soon as it is drawn, although the bank is not obliged to pay on a post-dated cheque before the date specified on the cheque.

22. Where a post-dated cheque is received subsequent to the date stipulated on the cheque, consideration is received when the cheque is received by the supplier.

23. Travellers' cheques are not "cheques" nor "bills of exchange". They are not unconditional orders to pay as they require a countersignature when requesting payment. Where payment is made by way of travellers' cheque consideration is both provided and received when the cheque is countersigned as this is the point at which the order to pay becomes unconditional.⁶

Credit card

24. When a payment is made by credit card in person, consideration is provided and received when the recipient of the supply signs the docket to authorise the transaction. When a payment is made remotely (e.g., by telephone or through the Internet), the consideration is provided and received when the cardholder gives the card number and other required details.

25. Under the usual arrangement for credit cards, once the cardholder signs the credit card voucher or provides the card number and other details, the liability to pay the supplier is unconditionally discharged.

Debit card [EFTPOS]

26. Where payment is made using a debit card [EFTPOS], consideration is both provided and received when the transaction is accepted by the system. This will usually be when a point of sale machine accepts the transaction. A debit card transaction is only accepted by the system where funds are available for transfer.

Direct credit

27. Direct credit transactions such as B-pay are initiated by the recipient of the supply. Consideration is provided when the payment

⁵ Section 16 of the *Cheques Act 1986* (renamed from *Cheques and Payment Orders Act 1986*)

⁶ *Riley's Annotated Bills of Exchange Act and Cheques and Payment Orders Act* [Fourth Edition] Robson, Ken, The Law Book Company Limited 1994, p 313.

is authorised, and consideration is received when the payment is credited to the supplier's account.

28. Direct credit transactions provide electronic funds transfer from the recipient's transaction accounts or credit accounts to the account of the supplier. The recipient of the supply authorises the payment to be made on a specified day, this being when consideration is provided. The supplier receives the payment when the amount is credited to his/her account.

Direct debit

29. Direct debit transactions are initiated by the supplier of the supply. Consideration is both provided and received at the time of the transfer. In order to identify the date correctly, the recipient of the supply may have to refer to relevant documents.

30. As the supplier initiates the direct debit transaction, the consideration is received when the supplier makes the transfer from the transaction or credit accounts of the recipient. However, the recipient may be unaware that the transfer has been made, or of the amount of the transfer. In order to correctly account for the payment, the recipient of the supply may need to refer to either statements from the financial institution, or other documents (such as accounts owing) to confirm these details.

Interbank transfer

31. Payments made by interbank transfer are usually of a fixed amount and are made regularly on a date advised in advance (for example \$250 on the 23rd of each month). Consideration is provided on a date authorised by the recipient of the supply and is received when the payment is credited to the supplier.

32. Interbank transfers are authorised by the recipient of the supply and are in the form of a direction to the financial institution to transfer a specified amount at a specified time on a regular basis. The recipient of the supply stipulates when the transfer is to take place and of the amount, and is taken to provide consideration at that time. The amount may not actually be credited to the supplier's account until after the date authorised by the recipient, and the date of actual crediting is the date on which the supplier receives consideration.

Digital cash

33. Where a payment is made using digital cash between participants in such a system, consideration is both provided and

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received when the digital cash transfer takes place, either via the Internet or in a card to card transaction.

34. Under a digital cash transaction, a transfer from recipient to supplier is instantaneous. This is because of the nature of digital cash, and the limited environment in which it is currently used.

Voucher

35. Where payment for a supply is made using a voucher which entitles the holder to receive supplies up to a monetary value stated on the voucher, consideration is both provided and received when the supply is paid for by redemption of the voucher.

36. Where a voucher entitles the holder to receive supplies up to a monetary value stated on the voucher, and consideration for the voucher does not exceed its face value, Division 100 has application. The effect of the Division is that the supply of the voucher is not a taxable supply and is therefore not subject to GST.

37. Where a voucher does not entitle the holder to receive supplies up to a monetary value stated on the voucher, any payment made constitutes consideration for the supply of the voucher. The payment instrument used (for example cash, cheque) determines when such consideration is provided and received.

38. Where payment for a supply is made using a voucher with no monetary value stated on the voucher, there is no consideration for the supply unless an amount in addition to the redemption of the voucher is payable. Where an additional amount is payable, the payment instrument used (for example by cheque or credit card) will determine when consideration constituted by the additional amount is provided and received.

Example

39. Toni has received a voucher through the mail as part of the promotion of a new restaurant. The voucher entitles Toni to a free dessert with each main meal purchased. Toni and a client dine at the restaurant and Toni pays for the main meals with her credit card, presenting the voucher in lieu of payment for the desserts. The additional consideration is both provided by Toni and received by the restaurant when Toni signs the credit card authorisation.

Stored value card

40. Stored value cards which do not have a stated monetary value and are not linked to accounts provided by an Australian Approved Deposit Taking Institution [ADI], are rights for the purposes of

subsection 9-15(3). The payment instrument used for the purchase of the rights attached to the card will determine when consideration is provided and received.

41. The supply of goods or services for which the card is utilised will not be a supply for consideration unless consideration in addition to the value on the card is provided. In that case the payment instrument used (for example by cheque, credit card) will determine when consideration is provided and received.

Example

42. Garth uses a stored value card to pay for parking. It does not have a stated monetary value. He reloads value onto the card by feeding coins or notes into a machine which recharges the card. This is consideration for the right to parking valued at up to the amount he loads onto the card. When Garth uses the card to pay for parking, and the parking charge exceeds the remaining value on the card he has to pay the attendant the difference in cash. The additional consideration is both provided and received when Garth hands the cash to the attendant.

43. The supply of a stored value card which is linked to an account with an ADI is a financial supply for the purposes of sub-regulation 40-16 item 5 of the table,⁷ and as such is input taxed.

44. The consideration for a supply obtained by use of this type of stored value card will be the full amount of the consideration given, including the amount by which the value of the card is depleted, and will be both provided and received at the time the transaction takes place.

Example

45. Roseanne uses a stored value card to purchase supplies for her florist shop from a wholesaler which provides a facility for this purpose. She reloads the card by transferring value to it from her savings account. When Roseanne uses the card to make her payments the amount of stored value transferred from the card is consideration provided and received at that time. If there is insufficient value on the card and she writes a cheque for the difference, the additional consideration is both provided and received when she hands the cheque to the wholesaler.

⁷ A New Tax System (Goods and Services Tax) Regulations 1999.

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Barter

46. When a supply is paid for by way of points or credits in a formalised system of barter, the consideration is both provided and received when the transaction under which the crediting of points, credits or other representations of barter credit amounts takes place.

47. A formalised system of barter utilises credits, points or some other like indicator as a medium of exchange.⁸ The Commissioner accepts that in most of these arrangements the monetary value of the medium of exchange is ascertainable in order to facilitate the fair exchange of supplies. Where this is the case, the time of provision and receipt of consideration is the time when the supply is made.

Example

48. Lewis is a commercial artist who is a member of the Better Barter program. Under the program, he provides his artistic services to various participants in the program and is credited with BBs. One BB equals \$1. Lewis uses his Better Barter card to purchase a new graphics package for his computer from a supplier who is also a member of the program. Lewis has 300BBs on his card and the package costs 375BBs. As the monetary value of the payment is ascertainable, Lewis will have provided, and the supplier will have received full consideration (375BBs) at the time of the transaction.

49. If no monetary value can be attributed (or if the monetary value attributed is not realistic) then two supplies will need to be recognised each time a supply is made for points, credits etc. There will be a supply of goods or services and a supply of points or credits etc. As consideration for neither of these supplies is expressed as an amount of money, the consideration for each will be the GST inclusive market value of the consideration and the consideration is provided and received at the time each supply is made.

50. Where direct barter of goods or services takes place, and there is a time lapse between the provision of goods and services, the first transaction is regarded as a prepayment of consideration for the second. The supplier of goods or services in the initial transaction has prepaid the consideration for the supply of goods or services to him/her in the second transaction.

51. At this point, the supplier of the initial goods or services has provided consideration in respect of the second transaction (which has not yet taken place) and may claim an input tax credit based upon the value of the initial supply. The recipient of the initial service has received a prepayment for future goods or services to be provided by him/her and must account for GST on the future transaction.

⁸ Taxation Ruling IT 2668 paragraph 3.

52. When the second transaction takes place, the recipient of the second supply (i.e., the supplier in the first transaction) receives consideration for the initial supply (equal to the market value of the second supply) and must account for GST on the initial supply. The supplier of the second supply has provided consideration for the initial supply and may claim an input tax credit.

Example

53. John is a painter and Bob is a plumber. Both are in the business of constructing new houses for sale. They agree that in exchange for John painting Bob's nearly completed house, Bob will do the plumbing on John's house in 3 months' time.

54. John does the painting. This is a prepayment of consideration for the plumbing work to be done on John's house. John claims the input tax credit in relation to the plumbing job using the value of the painting to calculate the amount of the consideration. Bob calculates the GST in relation to the plumbing job, also using the value of the painting to arrive at the amount.

55. Three months later, Bob does the plumbing on John's house. This is consideration for John having painted Bob's house. Bob claims an input tax credit for the painting of his house by using the value of the plumbing job to calculate the amount of the consideration. John calculates the GST in relation to the painting by using the value of the plumbing to arrive at the amount.

Line of credit/ overdraft

56. Where a supply is made by a supplier who also provides a line of credit or overdraft facility (with interest accruing) to the recipient of the supply, and if the payment for the supply is reflected by an increase in the amount owing in relation to the debt facility, consideration is both provided and received at the time the increase in the debt is recorded in the accounts of the supplier. Whether the line of credit or overdraft is provided by the supplier or another person is immaterial.

Sale on credit

57. Where supply is made on credit (e.g., 30 days credit terms with no interest payable), the credit is not considered to be a loan for the purposes of paying the consideration. Consideration is provided and received when actual payment is made and this is determined by the payment instrument used.

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Your comments

59. If you wish to comment on this draft Ruling, please send your comments promptly by **16 June 2000** to:

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Commissioner of Taxation

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Subject references:

- GST consideration
- cash basis
- non cash basis
- payment instruments
- cash
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Legislative references:

- ANTS(GST)A99 9-15
- ANTS(GST)A99 9-15(1)
- ANTS(GST)A99 9-15(2)
- ANTS(GST)A99 9-15(3)
- ANTS(GST)A99 29-5
- ANTS(GST)A99 29-5(1)
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- ANTS(GST)A99 29-10
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- ANTS(GST)A99 29-10(2)
- ANTS(GST)A99 Div 100
- ANTS(GST)A99 195-1
- ANTS(GST)R99 40-16 item 5
- Cheques Act 1986 Section 16

Case references:

- *Case D7 72 ATC 38*
- *Case D62 72 ATC 376; (1972) 18 CTBR (NS) Case 31*

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