Australian Government
Australian Taxation Office

Australian Taxation Office Legislative Instrument
Instrument ID: SAM 2006/1

A New Tax System (Goods and Services Tax) Simplified GST Accounting Methods Determination 2006/1

Explanatory Statement

General Outline of instrument

This determination provides restaurants, cafes and caterers (eligible food retailers) with the option of using a simplified GST accounting method (SAM) to calculate their entitlements to input tax credits for trading stock purchases for a particular tax period.

This determination is made under subsection 123-5(1) of the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act) and may be cited as the *A New Tax System (Goods and Services Tax) Act 1999* Simplified GST Accounting Methods Determination SAM 2006/1.

This determination is a legislative instrument for the purposes of the *Legislative Instruments Act 2003.* It is made by, and is legally binding upon, the Commissioner of Taxation.

Date of effect

This determination commences on 1 October 2006 and applies to net amounts for tax periods that commence on or after 1 October 2006.

What is this instrument about?

Division 123 of the GST Act allows the Commissioner to determine a SAM for particular groups of retailers. This determination sets out a new SAM for eligible restaurants, cafes, and caterers.

The SAM contained in this determination will facilitate the quick and simple calculation by eligible food retailers of the input tax credits they are entitled to claim in respect of their acquisitions of trading stock in a particular tax period. For example, the method can be used to calculate the input tax credits that relate to the purchase of food and non-food items that are trading stock but not the credits that relate to the purchase of non-stock items such as tables, chairs and crockery.

Presently, the eligible food retailers need to individually identify and record the GST contained in every tax invoice. The SAM will allow the input tax credits on trading stock to be estimated by taking a sample of acquisitions over a four-week period (sample period) and calculating the percentage that represents GST-free acquisitions. Two new calculations of the GST-free percentage must be done (about six months apart) for each financial year. This percentage is used for six months to calculate the amount of GST-free acquisitions for subsequent tax periods. The percentage is multiplied by total trading stock acquisitions in each tax period to determine an estimated amount of GST-free acquisitions in each tax period. The SAM will allow the input tax credits to be calculated by subtracting the estimated GST-free acquisitions from total acquisitions and multiplying it by $1/11^{th}$.

The determination can be used only by eligible food retailers (restaurants, cafes, and caterers) that satisfy the following conditions:-

- Registered for GST purposes.
- Mainly sell a range of food that is commonly sold by restaurants, cafes, and caterers.
- Annual turnover is $2 million (excluding GST) or less.

If an eligible retailer wishes to use the SAM set out in this determination, the eligible retailer must complete an 'Election to use a simplified GST accounting method' (NAT 4370) and forward this notification to the Commissioner. The SAM must then be used for 12 months or more. To revoke such an election, a 'Notice to revoke an election to use a simplified GST accounting method' (NAT 4371) must be completed and forwarded to the Commissioner.

It is not a requirement that a tax invoice be held for an acquisition in order for it to be included in the calculation of the input tax credit for a tax period whilst using the SAM covered by this determination. However, appropriate records must be kept to explain the calculations used to reach the final figure under this determination. Further, all records must continue to comply with the general record keeping requirements.

If a creditable acquisition was included in the amount of trading stock purchases for a tax period whilst using this SAM, and the input tax credit for that creditable acquisition is also claimed in a later tax period where the entity is not using this SAM, then a corresponding increasing adjustment must be made to the activity statement of the previous relevant tax period when the method in this determination was applicable. This rule is to prevent an entity from effectively claiming two input tax credits for the same acquisition.

What is the effect of this instrument?

This determination is in addition to the existing SAM determinations and is designed to provide a quick and easy method for eligible food retailers to estimate their entitlement to input tax credits.

This new determination will allow eligible food retailers who are not eligible or do not wish to use the existing determinations, an opportunity to choose and adopt a SAM that will reduce their costs to comply with the GST legislation.

Eligible food retailers who choose to use the SAM set out in this determination will use a simple formula to calculate their GST-free acquisitions so as to determine their entitlement to input tax credits for each tax period. The formula uses trading stock figures obtained over a four week sample period to determine what percentage in total acquisitions is represented by GST-free acquisitions.

For an existing business which starts to use this simplified accounting method where the start date is not from 1 June to 31 July or 1 December to 31 January, the first sample period can either be:

- a four-week period in the tax period which you start to use the SAM, or

- a four-week period during either 1 June to 31 July or 1 December to 31 January that has just elapsed.

For example, an entity with monthly tax periods which elects to use this SAM from 1 October 2006 can use the GST-free percentage of their trading stock for the sample period in the July 2006 tax period (or any four-week period during 1 June to 31 July 2006). This percentage can be used to calculate the amounts of GST-free stock for tax periods October, November and December 2006. Alternatively, the entity can record the amounts and GST status for stock purchases in October 2006 to work out the GST free percentage. This percentage can be used for the tax periods November and December 2006.

The rationale behind this formula is that the percentage of acquisitions which are creditable acquisitions at one point in time would be expected to be in line with the percentage of creditable acquisitions in subsequent tax periods for the kinds of businesses to which the determination applies.

We envisage that this determination will satisfy the industry's concerns over the current costs of compliance for their members. In addition, the determination is consistent with the Commissioner's commitment to making the tax experience of small business easier, cheaper and more personalised.

Example

Jim has been operating a restaurant for some time and he is on quarterly tax periods. His annual turnover is below $2 million. From 1 October 2006 he elected to use SAM 2006/1 to work out his input tax credits.

Jim can use a sample period from 1 June to 31 July 2006 or choose a four-week period from 1 October to 31 December 2006. Prior to 1 October 2006 Jim had already identified the GST status and the amounts of all trading stock he acquired because he was not using a SAM. As such he decided to use a sample period in June 2006. He calculated the GST-free percentage of trading stock for the sample period to be 70%.

During the tax period October-December 2006, Jim purchased $65,000 of trading stock. Using SAM 2006/1, the amount of GST-free trading stock for the October-December 2006 tax period is $45,500 (70% of $65,000). The amount of input tax credit is 1/11th of the difference between $65,000 and $45,500. Therefore the input tax credit entitlement on trading stock purchases for October-December 2006 tax period is $1773.

The next sample period is a four-week continuous period between 1 December 2006 to 31 January 2007. The GST-free percentage of trading stock from this sample period is used to calculate the amounts of GST-free trading stock for the tax periods January-March and April-June 2007.

For each financial year, Jim is required to do two new calculations of the GST-free percentage about every six months in order to calculate the amounts of GST-free trading stock.

Consultation

Representatives of various industry associations were consulted in relation to the development of the determination. The Restaurant & Catering Australia (RCA), who suggested the development of the determination, assisted in the consultation with individual restaurant and catering businesses while other associations provided their assistance and support throughout the consultation process. These industry groups include:

- Restaurant & Catering Queensland;
- Restaurant & Catering Victoria;
- Restaurant & Catering Perth;
- Restaurant & Catering NSW
- Asian Restaurant Association

The representatives of these associations strongly supported the development of the determination. They agreed that this will satisfy many concerns of small businesses in relation to complying with the GST legislation as it simplified their accounting processes thereby reducing their costs of compliance.

The Australian Government established the Regulation Taskforce to examine areas where changes could be made to ease the compliance burden on business. In their report, *Rethinking Regulations*, the Taskforce recommended that the Australian Taxation Office should develop a SAM for small restaurants, cafes and caterers which reduces compliance costs in relation to mixed acquisitions (Recommendation 5.37). This determination provides a simpler and cheaper method to calculate the input tax credits on mixed acquisitions.

Commissioner of Taxation
7 August 2006

Related Rulings/Determinations:

A New Tax System (Goods and Services Tax) (Simplified GST Accounting Methods) Determination 2001 (SAM 2001/1)

A New Tax System (Goods and Services Tax) Act 1999 Simplified GST Accounting Methods Determination (No. 1) 2004 (SAM 2004/1)

A New Tax System (Goods and Services Tax) Act 1999 Simplified Accounting Method Determination (No. 1) 2005 (SAM 2005/1)

Subject references:

Creditable acquisition
GST
Simplified Accounting Methods
Taxable supply
Trading stock

Legislative references:

A New Tax System (Goods and Services Tax) Act 1999;
Section 9-5
Section 11-5
Subsection 123-5(1)

Other references:

Election to use a simplified GST accounting method (NAT 4370)
Instructions for completing the GST section of the activity statement – for food retailers using a simplified GST accounting method (NAT 4369)
Notice to revoke an election to use a simplified GST accounting method (NAT 4371)
Simplified GST Accounting Methods for Food Retailers (NAT 3185)

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ISSN: