SHG 2000/1 - Explanatory statement -

Commissioner's Determination providing a Global Accounting Method (pooling) for Second-hand Goods

(Explanatory Statement)

1. Commissioner's determination

The Commissioner of Taxation has issued the *A New Tax System (Goods and Services Tax) Rules for Applying Subdivision 66-B Determination (No. 1) 2000* ('the determination'). The purpose of the determination is to offer transitional relief from the compliance burden the GST laws has placed on businesses dealing in second-hand goods. Further consideration is being given to resolve this issue.

The determination provides GST registered businesses with the choice to apply a global accounting method (pooling of credits and GST) for acquisitions of second-hand goods of a specified kind. The global accounting method already applies for the acquisition of second-hand goods from unregistered persons that are divided for re-supply (Subdivision 66-B of the GST Act). The determination does not affect the operation of Subdivision 66-B in relation to those goods.

The determination is taken to have commenced on 1 July 2000. It applies to second-hand goods that a GST registered business acquires, from both registered and unregistered suppliers, for the purposes of sale or exchange (but not for manufacture) in the ordinary course of business. *The determination does not apply to acquisitions of new goods.*

2. Under the determination, what second-hand goods can be pooled using the global accounting method?

An acquisition of the following kinds of second-hand goods can be pooled provided that *none* of the conditions set out at question 3 apply to the goods:

- an aircraft;
- an antique;
- a bag, carry case, suitcase or similar item;
- a boat, ship or other marine craft;
- a book, newspaper, magazine, folio, manuscript or other printed material;
- bric-a-brac;
- building materials;
- clothing or shoes;

- a coin, medallion or other numismatic item;
- a collectable;
- a compact disc, DVD, record, video or audio cassette;
- a cot, pram, stroller, safety seat or other item designed for infants;
- computer hardware or software;
- a container;
- an electrical appliance or item of electrical equipment;
- electronic equipment;
- a firearm;
- furniture;
- furnishings;
- a gardening tool or equipment;
- equipment used for hobbies;
- household ware including kitchenware or a bathroom fitting;
- jewellery or personal accessory (including spectacles or a watch);
- machinery, tool, implement, apparatus or equipment;
- a medical or health aid or appliance;
- a motor vehicle or any other form of vehicle including non-powered vehicle such as a bicycle or a horse drawn vehicle;
- a musical instrument;
- an ornament or decorative item;
- an item used for outdoor recreation;
- a personal item or appliance;
- a print, photograph, etching, drawing, painting, sculpture or other similar work of art;
- photographic equipment;
- scrap materials;
- sports equipment;
- a trailer or caravan;
- a stamp or label;
- telephonic equipment including a mobile phone or answering machine;
- a toy or game;
- a weapon;
- a writing implement or stationery; or
- a part, accessory or component of any of the above.

3. When can't second-hand goods of the kind specified at question 2 be pooled using the global accounting method?

The second-hand goods specified at question 2 *cannot* be pooled where:

- the supply of the goods to a business was GST-free; or
- a business purchased the goods from an unregistered person for a consideration of more than $1,000 and the goods are to be re-supplied by the business as a single supply of the entirety of the goods (the goods are not divided for re-supply); or
- the supply of the goods to a business was a supply by way of hire; or

- a business has claimed or intends to claim an input tax credit for the acquisition under another provision of the GST Act; or
- a business imported the goods, where the importation was not a taxable importation; or
- the goods acquired or part of the goods acquired by a business (other than by way of a taxable supply or a taxable importation) are subsequently supplied as a supply that is not a taxable supply.

Example 3.1

Kurt is a GST registered dealer of second-hand motor vehicle parts and accessories. He purchases his second-hand goods from both registered and unregistered suppliers. All of the second-hand motor vehicles and motor vehicle parts and accessories purchased by Kurt are low value items of less than $1,000 and are supplied by Kurt as taxable supplies. Kurt can choose to apply the determination to his acquisitions of second-hand motor vehicles and motor vehicle parts and accessories as they are second-hand goods of a kind specified in the determination.

4. Does a business dealing in second-hand goods of a kind specified in the determination have to apply the determination?

A business dealing in second-hand goods of a kind specified in the determination may choose not to apply the determination. The business may also choose to apply the determination to some or all of its acquisitions of second-hand goods of a kind specified in the determination.

Example 4.1

Adele acquires second-hand books from both registered and unregistered persons for varying amounts. She also imports second-hand books that are readily distinguishable from the books she purchases in Australia. For the tax period ending 31 December all of the acquisitions of the second-hand books are eligible to be pooled using the global accounting method.

Adele chooses to apply the determination and pool the acquisitions of the second-hand books purchased in Australia. She also chooses not to apply the determination to the imported second-hand books. Adele adds 1/11 of the consideration provided for the Australian purchases to her pool and claims the GST paid on the taxable importation of the books in the tax period of importation.

5. How does the global accounting method (pooling of credits and GST) work?

The global accounting method allows input tax credits on acquisitions of second-hand goods to be offset against all of the GST on supplies made from this pool of acquisitions. A business may do this at the end of each tax period.

In any tax period, GST will only be payable if at the end of the tax period the GST in the pool is greater than the credits in the pool. The amount of GST payable is the difference between the GST in the pool and the credits in the pool. However, where the credits in the pool are greater than the GST in the pool at the end of the tax period, the difference between the GST in the pool and the credits in the pool is carried forward to the next tax period. As the credits are carried forward to the next tax period, a business cannot claim any excess credits in its business activity statement (BAS).

Example 5.1

Scott is a second-hand goods dealer who makes only acquisitions of second-hand goods of a kind specified in the determination. In accordance with the determination Scott chooses to pool all of his acquisitions of second-hand goods.

Scott has the following transaction details for the first tax period:

- *Opening credit balance in the pool of $1,000*
- *Acquisitions of $7,700 (of which 1/11th, $700, credits are added to the pool)*
- *Supplies of $9,900 (of which 1/11th, $900, GST is added to the pool)*

At the end of the tax period Scott works out his GST liability, if any, by offsetting his total GST in the pool of $900 against his total credits in the pool of $1,700 ($1,000 + $700). Scott does not have to pay any GST as his total credits in the pool of $1,700 are greater than his total GST in the pool of $900. However, Scott is still required to complete and lodge his BAS showing the acquisitions and supplies for the tax period.

Scott carries the credit balance in his pool of $800 ($1,700 - $900) over to the next tax period.

Scott had the following transactions in the next tax period:

- *Opening credit balance in the pool of $800*
- *Acquisitions of $2,200 (of which 1/11th, $200, credits are added to the pool)*
- *Supplies of $13,200 (of which 1/11th, $1,200, GST is added to the pool)*

At the end of the tax period Scott works out his GST liability, if any, by offsetting his total GST in the pool of $1,200 against his total credits in the pool of $1,000 ($800 + $200). Scott has to pay $200 GST as his total GST in the pool of $1,200 is greater than his total credits in the pool of $1,000. Scott is required to complete and lodge his BAS showing the acquisitions and supplies for the tax period as well as calculate the amount of GST payable.

The balance of the pool Scott carries over to the next tax period is zero.

6. How does a business fill out its business activity statement (BAS) when it uses the global accounting method?

When a business pools its credits and GST using the global accounting method the business needs to complete its BAS following the three steps below. The business is required to complete and lodge its BAS even if the business does not have to pay any GST.

Step 1

- At **G1 (Total sales & income & other supplies)** *write* the total of the supplies that have been added to the pool for the tax period.

Step 2

- At **G11 (Other acquisitions)** and again at **G14 (Acquisitions with no GST on the price)** *write* the total of the acquisitions that have been added to the pool for the tax period

Step 3

- Calculate GST payable on pooled supplies and the amount to go at **G4 (Input taxed sales & income & other supplies)** – using the following worksheet:

		$
Write supplies of pooled items (figure at G1)	(a)	
Divide (a) by 11	(b)	
Write Acquisitions of pooled items (figure at G11)	(c)	
Divide (c) by 11	(d)	
Write balance of opening credits in the pool	(e)	
Add (d) and (e)	(f)	

Take (f) away from (b)
If (g) is greater than zero, (g) is the GST payable
If (g) is less than zero, (g) is the balance of credits in the pool to be carried over to the next tax period
	(g)	

Write GST payable from (g) (if zero or less than zero write zero)	(h)	
Multiply (h) by 11	(i)	
Take (i) away from (a) Write (j) at **G4 (Input taxed sales & income & other supplies)**	(j)	

Note: If a business also makes other supplies and acquisitions that have not been added to the pool (for example other expenses such as rent and electricity and acquisitions of new goods from registered suppliers) they *have* to also include these transactions in their BAS at the appropriate labels.

Example 6.1

Using the figures in Scott's first tax period from the example at question 5:

- *Opening credit balance in the pool of $1,000*
- *Acquisitions of $7,700 (of which 1/11th, $700, credits are added to the pool)*
- *Supplies of $9,900 (of which 1/11th, $900, GST is added to the pool)*

Step 1

- *At **G1 (Total sales & income & other supplies)*** write *$9,900 which is the total of the supplies that have been pooled for the tax period.*

Step 2

- *At **G11 (Other acquisitions)** and again at **G14 (Acquisitions with no GST on the price)*** write *$7,700 which is the total of the acquisitions that have been pooled for the tax period*

Step 3

- *Calculate GST payable on pooled supplies and the amount to go at* ***G4 (Input taxed sales & income & other supplies)*** *– using the following worksheet:*

Write *supplies of pooled items (figure at G1)*	*(a)*	*$* *9,900*
Divide *(a) by 11*	*(b)*	*900*
Write *Acquisitions of pooled items (figure at G11)*	*(c)*	*7,700*
Divide *(c) by 11*	*(d)*	*700*
Write *balance of opening credits in the pool*	*(e)*	*1,000*
Add *(d) and (e)*	*(f)*	*1,700*
Take *(f) away from (b)* *If (g) is greater than zero, (g) is the GST payable* *If (g) is less than zero, (g) is the balance of credits in the pool to be carried over to the next tax period*	*(g)*	*(800)*
Write *GST payable from (g) (if zero or less than zero write zero)*	*(h)*	*0*
Multiply *(h) by 11*	*(i)*	*0*
Take *(i) away from (a)* Write *(j) at* ***G4 (Input taxed sales & income & other supplies)***	*(j)*	*9,900*