Australian Government
Australian Taxation Office

Explanatory Statement

A New Tax System (Goods and Services Tax) (Simplified Accounting Methods – Government Entities Selling Food in Prisons and Detention Institutions) Determination 2025

General outline of instrument

1. This instrument is made under paragraph 123-5(1)(a) of the *A New Tax System (Goods and Services Tax) Act 1999* (the Act).

2. This instrument will allow eligible government entities that sell food in prisons and detention institutions through a sub-entity to adopt a Simplified Accounting Method (SAM) to calculate their net amounts, which will reduce their costs to comply with the GST legislation.

3. The instrument is a legislative instrument for the purposes of the *Legislation Act 2003*.

4. Under subsection 33(3) of the *Acts Interpretation Act 1901*, where an Act confers a power to make, grant or issue any instrument of a legislative or administrative character (including rules, regulations or by-laws) the power shall be construed as including a power exercisable in the like manner and subject to the like conditions (if any) to repeal, rescind, revoke, amend, or vary any such instrument.

Date of effect

5. This instrument commences on the day after it is registered on the Federal Register of Legislation.

Background

6. Entities are required to calculate the net amount for a tax period using the formula provided in section 17-5 of the Act. The basic formula contained in subsection 17-5(1) requires entities to calculate GST payable on taxable supplies and then deduct their input tax credit entitlements to arrive at their net amount. The net amount may be increased or decreased by adjustments and amounts of wine tax and luxury car tax.

7. Entities that make taxable and GST-free supplies or acquisitions that are taxable and GST-free are required to establish whether the particular supplies or acquisitions are taxable or GST-free when calculating their net amount.

8. Businesses incur compliance costs in seeking to distinguish between taxable and GST-free supplies and acquisitions. Depending on the point-of-sale equipment they use, accurately identifying and recording GST-free supplies separately from taxable supplies can be difficult, adding to compliance costs.

9. Section 123-5 of the Act allows the Commissioner to determine SAMs that some retailers and small enterprise entities can choose to apply with a view to reducing their costs of complying with the requirements of GST.

10. In making a determination under section 123-5 of the Act, the Commissioner is required to specify the kinds of retailers or small enterprise entities that can choose to use the SAM and provide a method for working out net amounts for those entities.

11. Government entities, through a sub-entity, that sell taxable and GST-free food in prisons and institutions where people are lawfully detained, incur significant compliance costs in determining their GST payable and their entitlement to input tax credits in respect of those supplies.

Effect of this instrument

12. This instrument will allow eligible government entities that sell food in a prison or institutions where people are lawfully detained to use a SAM, which will reduce their costs to comply with the GST legislation by providing them with simpler and easier methods to calculate their net amounts. The instrument repeals and replaces the instrument titled *A New Tax System (Goods and Services Tax) Act 1999 Simplified GST Accounting Method Determination (No. 28) 2015* which would otherwise sunset on 11 October 2025. The instrument has the same substantive effect as the one it is replacing.

13. Section 6 of the instrument contains the eligibility conditions to use the SAM, including that the government entity must be a GST-registered retailer and, through a sub-entity, sell both taxable and GST-free food at the same premises. Further, the sub-entity must be located in a prison or an institution where people are lawfully detained and have a GST turnover that does not exceed $2 million (calculated by treating the sub-entity as if it were a separate entity from the government entity).

14. The sub-entity's main activity must be selling food which is in an unchanged form.

15. The sub-entity must also not have point-of-sale equipment that can identify and record:

(a) each separate supply as being GST-free or taxable, and

(b) the total amount of its GST-free sales and the total amount of its sales.

16. Sections 7 and 8 of the instrument provide the SAMs – Method A and Method B – for eligible government entities to calculate net amounts relevant to their sub-entities (located in prisons and detention institutions). The SAMs cannot be used by the government entity to calculate GST payable or input tax credit entitlements for transactions undertaken by other parts of the government entity other than sub-entities located in prisons or institutions where people are lawfully detained.

17. Both Method A and Method B use a similar formula to that contained in section 17-5 of the Act, being GST minus input tax credits.

Method A

18. Method A, which may be referred to as the 'stock purchases method', provides a way for eligible government entities to work out the net amount for a tax period by estimating the GST payable by them on the taxable supplies of food that are made through a sub-entity in a prison or similar facility.

19. Under the method, the total consideration provided for creditable trading stock purchases for a tax period made by the sub-entity is divided by the total consideration provided for all trading stock purchases made by the sub-entity for that tax period to calculate the percentage of creditable purchases. This percentage is then applied to the total consideration received for sales made by the sub-entity to get an estimate of the taxable sales. Multiplying this amount by one-eleventh provides the GST payable on those sales for the tax period.

20. Input tax credits are then calculated in the same way as required by section 17-5 of the Act. This includes that the entity must hold a tax invoice before it can attribute an input tax credit to a tax period.

21. The net amount under Method A may be increased or decreased if the entity has any adjustments for acquisitions in the tax period. The entity will not have any adjustments for supplies

as the GST payable on its supplies are estimated under the method. An entity can have adjustments for acquisitions as these are calculated in the normal way and not estimated.

22. The net amount under Method A may be increased or decreased if the entity has any adjustments for acquisitions in the tax period. The entity will not have any adjustments for supplies as the GST payable on its supplies are estimated under the method. An entity can have adjustments for acquisitions as these are calculated in the normal way and not estimated.

Method B

23. Method B, which may be referred to as the ‘snapshot method’, provides a way for eligible government entities to work out the net amount for a tax period by estimating the GST payable by them on the taxable supplies of food and their entitlement to input tax credits for creditable acquisitions that are made through a sub-entity.

24. Under this method, the total consideration provided for creditable trading stock purchases is divided by the total consideration provided for total trading stock purchases for the sub-entity over a 4 week sample period to calculate the percentage of creditable purchases.

(a) This percentage is then applied to the total consideration received for sales made by the sub-entity for the tax period to get an estimate of the taxable sales for the tax period. This amount is then multiplied by one-eleventh to determine GST payable on those sales for the tax period.

(b) This percentage is also then applied to the total consideration provided for trading stock purchases made by the sub-entity for the tax period to get an estimate of creditable purchases for the tax period. This amount is then multiplied by one-eleventh to determine the entitlement to input tax credits for the tax period.

25. The 4 week sample period is a continuous 4 week period. Two sample periods will need to be used to cover tax periods in a year. The first 4 week sample period is any continuous 4 week period from 1 June to 31 July in year and covers tax periods beginning between 1 July and 31 December in that year. The second 4 week sample period is any continuous 4 week period from 1 December to 31 January in a year and covers tax periods beginning on 1 January and 31 June in that year.

26. As both the GST payable and input tax credit entitlements are estimated under Method B, the net amount is not increased or decreased by adjustments. This assists with making it easier to determine the entities net amount.

Compliance cost assessment

27. To be advised.

Consultation

28. Subsection 17(1) of the *Legislation Act 2003* requires the Commissioner to be satisfied that appropriate and reasonably practicable consultation has been undertaken before they make an instrument.

29. As part of the consultation process, you are invited to comment on the draft instrument and its accompanying draft explanatory statement.

Please forward your comments to the contact officer by the due date.

Due date:	2 July 2025
Contact officer:	Stephen Willis
Email:	Stephen.Willis@ato.gov.au
Phone:	07 3213 8967

Legislative references

A New Tax System (Goods and Services) Tax Act 1999
Acts Interpretation Act 1901
Human Rights (Parliamentary Scrutiny) Act 2011
Legislation Act 2003

Statement of compatibility with human rights

Prepared in accordance with Part 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011*

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This legislative instrument is compatible with the human rights and freedoms recognised or declared in the international instruments listed in section 3 of the *Human Rights (Parliamentary Scrutiny) Act 2011.*

Overview of the legislative instrument

This legislative instrument allows eligible government entities that sell food in prisons and detention institutions through a sub-entity to choose a simplified accounting method to calculate their net amounts.

Human rights implications

This legislative instrument does not engage any of the applicable rights or freedoms. It allows eligible government entities to adopt a simplified accounting method to reduce their costs of complying with the GST legislation.

Conclusion

This legislative instrument is compatible with human rights as it does not raise any human rights issues.