Safe Harbour values for claiming special GST credit for sales tax paid on stock

- Music CDs
- Trading stock of traditional record stores

(Edited copy of letter sent by Deputy Commissioner GST to Australian Record Industry Association (ARIA) on 8 May 2000).

I refer to your representations concerning the development of formulas or safe harbour values for use by record stores to claim a special GST credit under section 16 of the *A New Tax System (GST Transition) Act 1999* in respect of sales tax paid on stock held for retail sale at the start of 1 July 2000.

Following receipt of the representative sample of stock on hand figures and confirmation of the average value of untaxed service charges included in the invoice price of music CD's and other goods purchased by record stores, I have now finalised the necessary calculations to determine the safe harbour values that may be used by retailers of music CD's and record stores to claim a special GST credit for sales tax borne on retail stock held at the start of 1 July 2000.

Application of safe harbours

In recognition of the difficulties that would otherwise be encountered by retailers of music CD's in ascertaining the amount of sales tax borne, particularly in relation to music CD albums which are the subject of a reduced taxable value under an agreement with the Commissioner of Taxation, two safe harbours have been developed. The first relates to music CD albums and may be used by all retailers of music CD's, including the major retail chains, to calculate their entitlement to a special GST credit for the sales tax included in stocks of music CD albums at the start of 1 July 2000. The broad application of this safe harbour is based on the understanding that all retailers of music CD albums predominantly source their CD's from ARIA members and other suppliers who are party to the music CD Taxable Value Agreement with the Commissioner of Taxation.

The second, is a general safe harbour which can be used by traditional record stores to claim a special GST credit in respect of the sales tax borne on the full range of trading stock on hand as at 1 July 2000. For purposes of this safe harbour, traditional record stores are those retailers with retail stock comprising predominantly music CD's, records, videos, cassettes and music accessories including, music books, magazines and sheet music. Although these retailers may also stock and sell small quantities of other goods such as stylii, guitar strings, T-shirts, caps, etc., they are regarded as traditional record stores for purposes of the safe harbour. Music retailers that stock and sell hi-fi systems, hi-fi components and musical instruments are not regarded as traditional record stores. However, like all other retailers of music CD's they may still take advantage of the specific safe harbour for music CD albums to claim a special GST credit for those goods.

The special GST credit safe harbour values are as follows:

Music CD albums

- 15.40% of the into store cost value of CD's

All trading stock held by traditional

record stores, including CD's - 15.88% of the into store cost value of stock

Application of the above safe harbour values is not mandatory but optional. That means that affected retailers in the music industry will have the option of adopting the above safe harbour values for calculating their entitlement to a special GST credit for sales tax embedded in their stock on hand at the start of 1 July 2000, or calculating the actual amount of sales tax included in that stock.

Conditions

Retailers who at some later date receive a sales tax credit from their supplier or who receive a rebate or discount which reduces the cost price (and, hence, the sales tax payable) of stock held at 1 July 2000 which was subject of a special GST credit claim, will need to lodge an amended BAS to repay the overclaimed credit. The amount to be repaid is an amount equal to sales tax credit or the tax component of that rebate or discount. The tax component can be calculated by multiplying the total rebate by a factor equal to the tax rate, over 100 plus the tax rate. For goods which are subject to sales tax at the general rate of 22%, for example, this factor is 22/122.

Deputy Commissioner of Taxation