

- **Music CDs**
- **Trading stock of traditional record stores**

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.

Application of safe harbours

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.

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

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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