


GSTA TPP 004 - Goods and services tax: How do entities accounting on a cash basis who enter into hire purchase agreements claim input tax credits where the principal component of each payment varies on each instalment?

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 This document has changed over time. This is a consolidated version of the ruling which was published on *31 October 2012*



Goods and Services Tax Advice

Goods and services tax: how do entities accounting on a cash basis who enter into hire purchase agreements claim input tax credits where the principal component of each payment varies on each instalment?

Preamble

*This document was published prior to 1 July 2010 and was a public ruling for the purposes of former section 37 of the **Taxation Administration Act 1953** and former section 105-60 of Schedule 1 to the **Taxation Administration Act 1953**.*

*From 1 July 2010, this document is taken to be a public ruling under Division 358 of Schedule 1 to the **Taxation Administration Act 1953**.*

A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.

If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you – provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.

[Note: This is a consolidated version of this document. Refer to the Legal Database (<http://law.ato.gov.au>) to check its currency and to view the details of all changes.]

Answer

Financiers' method of calculation is known

If you account on a cash basis and you pay only part of the consideration during a tax period, under subsection 29-10(2)(b) of the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act) you attribute a corresponding portion of the input tax credit to that tax period.

The method used to work out the input tax entitlement must accurately calculate the amount of GST or input tax credit included in each instalment or part instalment. The calculation method should exclude that part of the instalment relating to any input taxed component of the supply and any part that was not subject to GST.

Where the amount of interest and principal is known

If the financier provides regular accounts or statements that show the principal and interest components of the instalments, the recipient must always use that statement as the basis for calculating input tax credits in the relevant tax period.

Where the amount of interest and principal is not known

If the recipient does not know the interest and principal components of the instalment, the recipient must take reasonable steps to find out these details from the financier. Where the financier does not provide these details but provides the method of calculation of interest, the recipient should use that method of calculation.

If neither the interest component nor the method of calculation of interest can be found out from the financier, estimating the interest component is acceptable. Division 240 of the *Income Tax Assessment Act 1997* provides a specific method to determine the amount of notional interest for income tax purposes. In respect of new hire purchase agreements entered into, it is acceptable if the method described in Division 240 is used for estimating interest for GST purposes. In respect of existing hire purchase agreements, if the recipient has used the guidelines provided in Taxation Ruling TR 93/16 in estimating the interest, the recipient should continue the same methodology adopted until the hire purchase agreement ceases.

The entitlement to input tax credits arises only for supplies on which GST is payable. Therefore, in order to determine the recipient's input tax credit entitlement in a tax period, the recipient is required to exclude the portion representing the interest component from the instalment payments made in that tax period. Also, if the instalment payments made in that tax period include any fees and charges that are not subject to GST, such as stamp duty or registration fees, it is necessary to exclude the portion representing such fees and charges. The recipient's entitlement to input tax credits is 1/11th of the resultant principal amount of the instalments paid in that tax period.

Application of this GST Advice

This Advice applies [to tax periods commencing] both before and after its date of issue. However, this Advice will not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of this Advice (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

Commissioner of Taxation

14 June 2005

Related Rulings/Determinations/GST Advice:

TR 93/16; TR 2006/10

Subject references:

financial supplies
hire purchase agreements
creditable acquisitions
input tax credits

Legislative references:

ANTS(GST)A 1999 29-10
ITAA 1997 Div 240
TAA 1953 Sch 1 Div 358

ATO references

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