



# ***GSTA TPP 008 - Goods and services tax: How do I calculate the input tax credit for second-hand goods divided for re-supply?***

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 This document has changed over time. This is a consolidated version of the ruling which was published on *14 June 2005*



## Goods and Services Tax Advice

### Goods and services tax: How do I calculate the input tax credit for second-hand goods divided for re-supply?

#### Preamble

*This document is a ruling for the purposes of section 37 of the Taxation Administration Act 1953. It illustrates the principles contained in **Goods and Services Tax Determination GSTD 2000/2 on input tax credits for second-hand goods**. You can rely on the information presented in this document, which provides advice on the operation of the GST system.*

#### Answer

In accordance with the global accounting method set out in subdivision 66-B of the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act), 1/11<sup>th</sup> of the consideration you provide or are liable to provide for your acquisition is included in your subdivision 66-B credit amount.

This amount is offset against future re-supplies you make of second-hand goods to which the global accounting method applies.

#### Background

You are a GST registered automotive parts recycler. You purchase a used motor vehicle after 1 July 2000 from an unregistered person, dismantle it, and sell it off as parts. Supplies of the parts are taxable supplies or, in the event section 66-45 of the GST Act applies, would have been taxable supplies had this section not applied.

#### Explanation

Subdivision 66-B of the GST Act deals with acquisitions of second-hand goods that can be used to offset GST on future re-supplies of second-hand goods. This provides a global accounting method for acquisitions of second-hand goods that are divided for re-supply.

Subdivision 66-B of the GST Act applies to an acquisition of second-hand goods if:

- you acquire the goods for the purposes of sale or exchange (but not for manufacture) in the ordinary course of business; and

- either the consideration for the acquisition was more than \$300 or you choose to have this division apply to the acquisition; and
- the goods are of such a kind, or they are supplied to you in such a way, that it would be reasonable to expect you to divide them before supplying them in two or more separate supplies; and
- you do not subsequently make a single supply of the entirety of the goods acquired.

However you cannot use these rules where:

- the consideration for the acquisition separately itemises the consideration for the different goods acquired, and your division of the goods before supplying them:
  - corresponds to that itemisation; or
  - does not involve dividing the goods any further than the division indicated by that itemisation;
- the supply of the goods was a taxable supply or was GST-free;
- the goods were imported;
- the supply of the goods was by way of hire;
- the supply of the goods or part of the goods is not a taxable supply.

The global method allows all of the input tax credits on acquisitions of second-hand goods to which subdivision 66-B of the GST Act applies, to be offset against all of the GST on supplies made from this pool of acquisitions. Thus, no GST is payable on a supply until all of the credits have been absorbed.

*For example, if the acquisition pool held \$50 in credits and a re-supply was made for \$440, then the GST payable will be \$40. The \$40 will be offset against the credit pool, which will now equal \$10 in credits.*

*As the GST payable is offset against the pool of credits you do not have to remit the \$40.*

In some instances, the total credits in the pool are absorbed by a re-supply. This re-supply will incur a GST liability on the portion that was not absorbed by the pool of credits.

*For example, if the acquisition pool held \$50 in credits and a re-supply was made for \$880, then the GST amount will be \$80. All the credits in the pool will have been absorbed with \$30 in GST remaining. The GST payable to the Australian Taxation Office on the supply will be reduced by the \$50, thus resulting in a \$30 GST liability.*

## Global accounting determination

The Commissioner has also issued a determination under section 66-70 of the GST Act that allows GST registered entities to apply the global accounting method (pooling of credits and GST) for purchases of the types of second-hand goods specified in the determination. The goods range from antiques to collectables, clothing, coins, stamps and motor vehicle parts that are purchased for sale or exchange but not for manufacture. The global accounting method may be applied to acquisitions specified in the determination that do not cost more than \$1000, regardless of the fact that they may not be divided for re-supply.

By extending the pooling of input tax credits and GST to other second-hand goods, businesses do not have to "track" individual parts or items from the time of purchase to point of sale to work out their GST liability.

### Application of this GST Advice

This Advice is based on GSTD 2000/2. It explains our view of the law as it applied from 1 July 2000. You can rely on this Advice on and from its date of issue for the purposes of section 37 of the *Taxation Administration Act 1953*. Goods and Services Tax Ruling GSTR 1999/1 explains the GST rulings system and our view of when you can rely on our interpretation of the law in GST public and private rulings.

If this Advice conflicts with a previous private ruling that you have obtained, this public ruling prevails. However, if you have relied on a private ruling, you are protected in respect of what you have done up to the date of issue of this public ruling. This means that if you have underpaid an amount of GST, you are not liable for the shortfall prior to the date of issue of this later ruling. Similarly, you are not liable to repay an amount overpaid by the Commissioner as a refund.

GSTA TTP 007

### Subject references:

second hand goods  
input tax credits  
global accounting method

### Legislative references:

ANTS(GST)A 1999 Div 66-B  
TAA 1953 37  
*A New Tax System (Goods and Services Tax) Rules for Applying Subdivision 66-B Determination (No. 1) 2000*

### ATO references

NO:	05/3095
ISSN:	1833-0053

Commissioner of Taxation

Date

### Related Rulings/Determinations/GST Advice:

GSTR 2004/D4  
GSTA TTP 005  
GSTA TTP 006