



GSTA TPP 018 - Goods and services tax: Can an interest charge be a change in consideration and therefore an adjustment event (as opposed to a financial supply)?

 This cover sheet is provided for information only. It does not form part of *GSTA TPP 018 - Goods and services tax: Can an interest charge be a change in consideration and therefore an adjustment event (as opposed to a financial supply)?*

 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: Can an interest charge be a change in consideration and therefore an adjustment event (as opposed to a financial 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 Ruling GSTR 2000/19 on adjustments**. You can rely on the information presented in this document, which provides advice on the operation of the GST system.

Answer

No, an interest charge is consideration for a financial supply and does not give rise to an adjustment event.

Explanation

Goods and Services Tax Ruling GSTR 2000/19 making adjustments under Division 19 for adjustment events (as amended) explains how division 19 of the GST Act operates. In relation to late payment charges it comments:

29. A charge for late payment that is consideration for the supply of an interest in a credit arrangement does not give rise to an adjustment event. The charge is consideration for a financial supply. Whether a charge for late payment is consideration for the acquisition of an interest in a credit arrangement will depend on the facts of each case. The description given to the charge (for example, as 'damages' or 'liquidated damages') by the parties is relevant but not conclusive. It is necessary to determine the true character of the arrangement having regard to the terms of the agreement and other relevant circumstances.

Example – interest charge

31. Henry supplies goods to Andrew under terms that require the amount invoiced to be paid within 30 days after which interest will accrue at 14% per annum. In addition to the amount originally invoiced to Andrew, Henry demands payment of the interest. As the agreement contemplates late payment, Henry has supplied Andrew with an interest in a credit arrangement. The late payment charge is consideration for a financial supply and is not an adjustment event.

Example – flat charge

32. George's Plumbing sells goods to Jasper on the basis that if payment is not received within 30 days, a fee of 2% of the amount due will be payable. The terms of trading refer to this as a 'fee for account keeping services'. However, no additional services are provided to Jasper by George's Plumbing. Jasper makes the payment (including the 2% fee) after the due date. Although described by the parties as a fee for account keeping services, the fee is in reality a charge for the late payment. The fee is consideration for the supply of an interest in a credit arrangement and is therefore consideration for a financial supply.

Application of this GST Advice

This Advice is based on GSTR 2000/19. 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.

Commissioner of Taxation

Date

Subject references:

interest charge
consideration
adjustment event
financial supplies

Legislative references:

ANTS(GST)A 1999 Div 19
TAA 1953 37

ATO references

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