



***GSTA TPP 076 - Goods and services tax: Are rebates and other trade incentive payments that are bundled into one total amount, treated for GST purposes, as being a rebate or discount that reduces the consideration for the relevant purchases?***

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 This document has changed over time. This is a consolidated version of the ruling which was published on *1 February 2006*



## Goods and Services Tax Advice

**Goods and services tax:** Are rebates and other trade incentive payments that are bundled into one total amount, treated for GST purposes, as being a rebate or discount that reduces the consideration for the relevant purchases?

### 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 which is about making adjustments for adjustment events**. You can rely on the information presented in this document, which provides advice on the operation of the GST system.*

### Answer

No. Rebates and other trade incentive payments that are bundled into one total amount are not treated, for GST purposes, as being a rebate or discount that reduces the consideration for the relevant purchases. The bundling does not change the GST treatment that applies to each of the bundled rebates or payments. How the GST law applies has to be considered separately for each of the rebates or payments that are bundled.

### Background

The payment and receipt of rebates and other trade incentive payments is common practice in the manufacturing, wholesaling and retailing industries.

In negotiating trade agreements, many purchasers are moving to agreements with bundled terms. Under these agreements the total 'rebate amount' has been increased to incorporate other amounts, for example, volume rebates plus any previous promotional rebate and early settlement discount amounts. For example, the volume rebate may be increased from 3% of purchases to 9% to reflect the previous volume rebate, a 3% promotional rebate and an early settlement discount of 3%.

### Explanation

Rebates take many different forms. Some of these affect the price for which the goods are sold (price adjustments that give rise to an adjustment event) while others do not (consideration for separate taxable supply of services).

For a rebate to reduce the price of goods sold, it must relate to the sale and the selling price of the goods, so as to bring about a reduction in the price of the goods. Examples of rebates that adjust the price of goods or services include:

- volume rebates and deferred credits (suppliers may pay rebates to customers who reach certain levels of purchases); and
- discounts – settlement or trade (after a supply occurs, a discount may be granted for early payment).

Where the intention of the parties, their actions and written documents clearly show that the rebate relates to a change in the selling price, the rebate is considered an adjustment event.

A rebate that is paid to subsidise, compensate or reimburse a purchaser for advertising or marketing services undertaken on behalf of the supplier, does not reduce the price of goods and therefore does not constitute an adjustment event.

These include payments made by a supplier to a purchaser as reimbursement, compensation or reward for doing things for the supplier, such as; advertising, promotion, warehousing, distribution or other marketing activities, as well as accounting, bookkeeping or debt collection functions, or allowing the supplier a right to use the purchaser's premises or equipment for these activities.

Promotional rebates that provide a commercial advantage to the supplier by maximising sales are treated as consideration for a supply of services by the recipient. The supply of these services by the recipient is made for consideration equal to the

amount of the rebate. Despite the form taken by the rebates, they are directed at an end other than the reduction of the selling price and do not vary the consideration for a supply.

The bundling of rebates and other incentive payments, and referring to them collectively by one particular description, such as a volume rebate, does not change the GST treatment that applies to each of the bundled rebates or payments. Neither a contract of sale, by itself, nor the name given to a particular rebate or trade incentive payment, determines the character of the rebate or payment if the actions of the parties or the circumstances surrounding its payment disclose a different character. An objective assessment of the intention of the parties in the light of all of the circumstances is required to determine the correct GST treatment of each rebate and incentive payment.

The bundled rebates and incentive payments cannot be treated as a mixed supply, as a combination of a supply and adjustment event is not considered to be a mixed supply.

#### ATO references

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#### 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 ruling that you have obtained, this public ruling prevails. However, if you have relied on a previous 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:

GST net amounts & adjustments  
adjustments  
marketing rebate  
promotional rebates  
settlement & trade discounts  
volume rebate

#### Legislative references:

TAA 1953 37

#### Other references:

Fact sheet – Rebates and GST (NAT 7579-06.2004)