


GSTA TPP 094 - Goods and services tax: How is the final adjustment calculated when a building is renovated and the owner's GST registration is cancelled?

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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 is the final adjustment calculated when a building is renovated and the owner's GST registration is cancelled?

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.]

Background

A business bought a commercial property before the introduction of GST for \$110,000. The supply of the property was not a taxable supply. The business carried out extensive renovations including new kitchens, alteration to walls, and painting. These things became part of the building and lost their identity. The value of each acquisition exceeded \$1,000. The total amount of these alterations was \$55,000 (of which a \$5,000 input

tax credit was claimed). The business ceased its enterprise and is cancelling its GST registration. The assets remain with the existing entity. There is no market value of attached things, but the market value of the building is \$250,000.

Answer

When it cancels its registration, the business still has assets on hand for which it has previously claimed input tax credits. It is required to make an increasing adjustment under subsection 138-5(1) of the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act), in respect of each thing included in the assets on hand, to cancel those input tax credits.

The reason for the adjustment is that the assets are being taken out of the GST system. As the assets are not being used in the GST system, there is no entitlement to an input tax credit for those assets. The adjustment operates to take back any input tax credits already given in respect of things acquired that are included in the assets.

The structural improvements made to the commercial building are things included in the assets of the entity for the purposes of Division 138 of the GST Act.

However, the business does not have an adjustment in respect of a thing if there was one or more adjustment periods for the thing acquired and the last of those adjustment periods has ended before the cancellation of registration takes effect.

In answering the question it has been assumed that for of each of the things acquired (for which input tax credits were claimed), the last adjustment period has not ended.

The amount of the adjustment for each thing referred to in paragraph 138-5(1)(b) of the GST Act is calculated using the formula provided in subsection 138-5(2) of the GST Act as follows:

1/11 X Actual application of the thing X
Applicable value

Where the **applicable value** is the **lesser** of:

- the GST-inclusive market value of the thing immediately before the cancellation takes effect, and
- if the entity is, or was, entitled to an input tax credit for acquiring the thing – the amount of the consideration that it provided, or was liable to provide, for its acquisition of the thing.

Accordingly, the 'applicable value' is the lesser of the cost and the GST-inclusive market value immediately before the cancellation. The adjustment recognises that some of the assets used in the enterprise may have lost value. In effect, the value represents usage in the enterprise while the asset was in the GST system. The adjustment allows an input tax credit for the value used in the enterprise for a creditable purpose, and recoups the difference. If the amount of consideration provided for acquiring the asset is less than its GST-inclusive market value (for example, where the asset has appreciated over time), the applicable value is the amount of consideration provided.

In this case, the improvements have no market value. However, the value of the improvements is reflected in the value of the property immediately before cessation of registration. The market value of the improvements is equal to:

<u>Cost of improvements</u>	X	Value of property
Cost of improvement +		at cessation of
Value of property before		registration
improvements		

<u>\$55,000</u>	X	\$250,000
\$55,000 + \$110,000		

(In this calculation, it has been assumed that the value of the property immediately before the improvements were made was equal to the acquisition cost. This will not necessarily be the case.)

= \$83,333

As the market value of the improvements is greater than the consideration provided for the acquisition of the improvements the applicable value is \$55,000.

The term 'actual application' refers to the degree that an item has been used for a creditable purpose in a period starting from the time it was acquired or imported, and finishing at the end of the adjustment period. The amount is expressed as a percentage.

Therefore, the adjustment required is $1/11 \times 100\% \times \$55,000 = \$5,000$.

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

1 February 2006

Related Rulings/Determinations/GST Advice:

TR 2006/10; GSTA TPP 095

Subject references:

Adjustment events
Adjustments
Concluding tax period
GST registration
GST sale of real property

registration cancellation

Legislative references:

ANTS(GST)A 1999 Div 138
TAA 1953 Sch 1 Div 358

ATO references

NO:	05/3095
ISSN:	1833-0053