

***GSTB 2001/3 - Simplified calculation of input tax for caravan park operators***

# GST Bulletin

GSTB 2001/3

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**Australian  
Taxation  
Office**

## Simplified calculation of input tax credits for caravan park operators

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Date of Issue: 24 August 2001

This Bulletin will apply on and from 1 July 2001.

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*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.*

### **Introduction**

This Bulletin applies to caravan park operators who supply both short-term and long-term accommodation in the same premises and who choose to treat supplies of long-term accommodation as input taxed supplies.

It explains a simplified method you may use to calculate input tax credits on your non-capital acquisitions (also known as operating expenses) relating to your taxable supplies.

You claim input tax credits in the normal way for capital acquisitions, such as supplies of short-term accommodation.

## Background

If you are a caravan park operator you have the choice of:

- charging an effective 5.5% GST on your supplies of long-term accommodation and claiming full input tax credits; or
- input taxing those supplies, which means not charging the GST and not claiming input tax credits.

If you choose to input tax your long-term accommodation, the following table illustrates the GST payable and entitlement to input tax credits for the various types of supplies you may provide:

<b>Supplies</b>	<b>GST payable</b>	<b>Entitled to Input Tax Credits</b>
Long-term accommodation (28 days or more) using the input taxed approach	No	No
Short-term accommodation (less than 28 days)	Yes	Yes
Other supplies (for example shop sales, coin operated machines, commissions, or electricity supplies)	Yes	Yes

Where you choose to apply the input taxed treatment and you make both taxable supplies (short-term accommodation, shop sales etc.) and input taxed supplies (long-term accommodation) you cannot claim credits for your acquisitions relating to input taxed supplies.

If an acquisition (e.g., general overheads) relates to making both taxable and input taxed supplies, it is only partly for a creditable purpose. You have to work out the extent of creditable purpose to calculate the portion of input tax credits you can claim.

Goods and Services Tax Ruling GSTR 2000/15 provides a number of methods to work out the extent of creditable purpose for claiming your input tax credits. The method you use will depend on your circumstances. One simple method in GSTR 2000/15 the output based indirect method (see paragraphs 95 and 115 to 124) is to apply the ratio of the revenue earned by each type of supply. However, some caravan park operators have advised that this method does not always give a fair and reasonable result. You may use other methods but the method you use should be fair and reasonable.

## Simplified method of apportionment for non-capital acquisitions

This Bulletin sets out details of an optional simplified method you can use. It has been developed in conjunction with caravan park operators. It is available where you choose to input tax your supplies of long-term accommodation.

This simplified method involves the use of a factor to calculate input tax credits on operating expenses. The factor, which is set at 1.75%, has been determined by the ATO in consultation with the industry based on a broad analysis of the expenditure and income patterns in a number of caravan parks. The use of this factor enables you to easily work out the proportion of GST paid on your acquisitions that relate to making input taxed supplies of long-term accommodation. The factor will be regularly reviewed in consultation with industry representatives to keep abreast of industry costs.

## When can I use the optional simplified method?

You can choose to use the new method with effect from 1 July 2001 or from the start of any tax period in the future.

## Can I alter my choice once I have chosen to input tax?

Yes. However, once you have chosen to input tax your long-term accommodation you must continue to do so for at least twelve months. After the 12 months, you can choose to continue this treatment of your long-term accommodation, or you can choose to treat these supplies as taxable.

When you change your treatment of long-term accommodation you may have to make an adjustment in relation to previous capital purchases – see **Capital acquisitions** below.

## How do I use the simplified method?

If you choose to input tax your long-term accommodation, you can now work out input tax credits on non-capital acquisitions that you need to apportion, as follows:

- |        |   |
|--------|---|
| Step A | identify the GST you paid on non-capital acquisitions which would normally have to be apportioned |
| Step B | identify the total income from long-term accommodation and multiply it by 1.75%                   |
| Step C | A minus B equals the amount of input tax credits that can be claimed on non-capital acquisitions  |

The method applies to all non-capital acquisitions which you need to apportion, that is, non-capital acquisitions that you have incurred in relation to both your long-term and short-term accommodation and other supplies.

To work out the **total input tax credits** that you are entitled to claim you add the input tax credits from:

- Step C above;
- direct operating expenses that relate **only** to your taxable supplies (for example, stock for your shop sales);
- capital acquisitions other than those relating to your supplies of long-term accommodation (for example, capital works to establish short-term accommodation sites).

## Capital acquisitions

Your capital acquisitions include assets such as machinery, cash registers, computers, cars, caravans, other items of plant and equipment and structural improvements.

Capital acquisitions fall into 2 broad categories;

- (1) those that you acquire specifically for making either taxable or input taxed supplies, and
- (2) those that you acquire for making both taxable and input taxed supplies.

In the first category, where your capital acquisitions are used to make taxable supplies, the capital acquisitions are fully creditable. Conversely, where your capital acquisitions are used to make input taxed supplies, the acquisitions are not creditable. You do not apportion these types of capital acquisitions.

When deciding whether an acquisition is specifically for making supplies of short-term accommodation, you can ignore an incidental use by long-term residents and vice versa. For example, major draining improvements are made in the short-term accommodation zone in a park. As part of the works a roadway needs to be reconstructed. The roadway is specifically for use of short-term residents but it is known that occasionally long-term residents will use it to go fishing in the adjacent river. The incidental use of the roadway by the long-term residents can be ignored.

In the second category, you will need to work out the extent that the acquisition is used for a creditable purpose and apportion your input tax credits on that basis. As explained above, Goods and Services Tax Ruling GSTR 2000/15 gives guidance on how to do this. You can use the methods in that Ruling, or any other methods, so long as they give a fair and reasonable result.

For example, the capital cost of constructing 10 additional sites (4 short-term sites and 6 long-term sites in specifically designated long-term and short-term zones in the park) can be apportioned 40% for a creditable purpose and 60% not for a creditable purpose.

### ***Changes in the use of an asset***

In some instances the use of a capital asset may change over time. For example, capital acquisitions made for short-term accommodation may in the future be used for long-term accommodation. Likewise, capital acquisitions made for long-term accommodation may in the future be used for short-term accommodation. In both of these instances there is a change in the extent of creditable purpose.

When there is a change in the extent of creditable purpose of a capital acquisition, and the GST-exclusive value of the acquisition is more than \$1000, it is necessary to make an adjustment. Goods and Services Tax Ruling GSTR 2000/24 shows you how to make adjustments because of changes in the extent of creditable purpose.

### ***Change in the treatment of long-term accommodation***

Where you change your treatment of long-term accommodation (from taxable to input taxed or vice versa) there will be a change in the extent of creditable purpose and an adjustment may be necessary.

## Example of the simplified method

*Acme Tourist and Residential Park operates a caravan park that supplies short-term and long-term accommodation in clearly defined zones in the park. Acme also operates a convenience store and provides coin operated washing and drying machines to residents. Appendix A shows Acme's income and expenditure.*

*The management of Acme has chosen to input tax its supplies of long-term accommodation.*

*Acme extends their electrical reticulation system by installing a new electrical distribution board at a cost of \$16,500 (including \$1,500 GST). This sub-board is installed so that 9 sites can be supplied with electricity – 6 long-term sites and 3 short-term sites. As 6 sites out of 9 are for long-term accommodation, 2/3rd of the cost of the electrical reticulation system cannot be apportioned to a creditable purpose. Therefore, Acme can only claim \$500 as an input tax credit because 1/3rd of the cost relates to a creditable purpose, i.e., the 3 short-term sites.*

*Acme constructs a roadway at a GST inclusive cost of \$33,000 in the long-term zone of a park for use by long-term residents. The GST of \$3,000 (1/11th of \$33,000) cannot be claimed as an input tax credit.*

*Most of the Acme's non-capital acquisitions do not relate only to either long or short-term accommodation. To allocate these costs, Acme may choose to use the simplified apportionment method. The table below, which draws on details in Appendix A, shows how the method works.*

<i>Identify the GST paid on non-capital acquisitions which would normally have to be apportioned (Step A)</i>		<i>\$37,322</i>
<i>Identify the total income from long-term accommodation and multiply it by 1.75%</i>		
<i>1.75% of \$712,734 (Step B)</i>		<i>\$12,472</i>
<i>A minus B equals the amount of input tax credits that can be claimed in respect of non-capital acquisitions (Step C)</i>		<i>\$24,850</i>
<i>Add input tax credits on capital acquisitions for short-term accommodation</i>	<i>\$ 5,500</i>	
<i>Add input tax credits on purchase of stock for shop</i>	<i>\$1,721</i>	<i>\$ 7,221</i>
<i>The total amount Acme can claim as an input tax credit</i>		<i>\$32,071</i>

## Appendix A

### *Acme Tourist and Residential Park*

Gross Income	\$	\$
Shop	85,965	
Coin machines	<u>3,925</u>	
Total –other income		89,890
Long-term site fees	712,734	
Short-term site fees	<u>379,550</u>	
Total Site Fees:		<u>1,092,284</u>
<b>Total Income</b>		<b><u>1,182,174</u></b>

Expenses (GST inclusive)		Subject to GST	Capital acquisitions to make taxable supplies	Direct expenses to make taxable supplies	Non-capital acquisitions to be apportioned
Accounting	20,295	20,295			20,295
Advertising	88,764	88,764			88,764
Bank Charges	1,952	No GST			
Bookkeeping	680	680			680
Cleaning Materials	5,750	5,750			5,750
Computer Expenses	4,550	4,550			4,550
Electricity	29,300	29,300			29,300
Licences, Fees and Other Charges	5,915	No GST			
Fuel	2,820	2,820			2,820
Gas	9,775	9,775			9,775
Hire of Plant	1,350	1,350			1,350
Installation of electrical reticulation system	16,500	16,500	5,500 <sup>1</sup>		
Insurance	9,130	9,130			9,130
Interest	17,274	No GST			
Legal Costs	5,065	5,065			5,065
Pool Maintenance	2,750	2,750			2,750
Postage	4,520	4,520			4,520
Purchase of shop stock	36,935	18,935 <sup>2</sup>		18,935	
Printing & Stationary	2,560	2,560			2,560
Rates	32,881	No GST			
Rent – Equipment	7,800	7,800			7,800
Repairs & Maintenance	134,000	134,000			134,000
Construction of Road – short- term accommodation zone	55,000	55,000	55,000		
Construction of Road – long-term accommodation zone	33,000	33,000			
Security	6,500	6,500			6,500
Staff Amenities	3,440	3,440			3,440
Staff Training	13,355	13,355			13,355
Subscriptions	1,550	1,550			1,550
Superannuation	15,800	No GST			
Telephone	20,185	20,185			20,185
Trade Waste	36,400	36,400			36,400
Wages	253,365	No GST			
<b>Total</b>	<b>879,161</b>	<b>533,974</b>	<b>60,500</b>	<b>18,935</b>	<b>410,539</b>
GST		48,543	5,500	1,721	37,322

<sup>1</sup> 1/3 of capital cost of new electrical distribution board relates to short-term accommodation zone.

<sup>2</sup> \$18,000 of shop stock purchases are GST-free.

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**Commissioner of Taxation**

24 August 2001

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ATO References:

NO: T2001/014114

FOI: I 1023153