



# ***GSTD 2002/4 - Goods and services tax: what are the requirements for a particular document to be treated as an adjustment note when an adjustment arises from a payment made by a third party?***

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 This document has changed over time. This is a consolidated version of the ruling which was published on 9 October 2002

# Goods and Services Tax Determination

## **Goods and Services Tax: what are the requirements for a particular document to be treated as an adjustment note when an adjustment arises from a payment made by a third party?**

### ***Preamble***

*This document is a ruling for the purposes of section 37 of the **Taxation Administration Act 1953**. You can rely on the information presented in this document which provides advice on the operation of the GST system.*

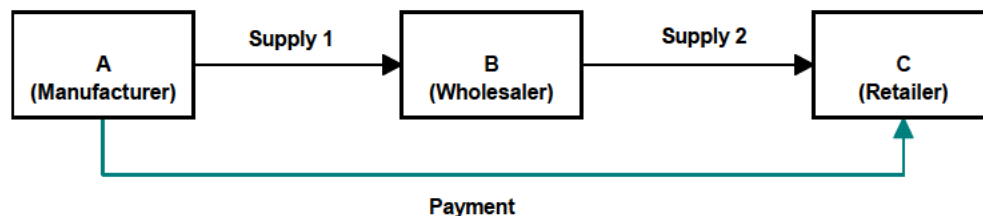
### ***Date of Effect***

*This Determination explains our view of the law as it applied from 1 July 2000. You can rely upon this Determination as 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.*

1. A document is treated as an adjustment note when an adjustment arises from a payment made by a third party, if that document satisfies the requirements in paragraph 8 of this Determination.

### ***Background***

2. Where an entity makes a supply to a recipient, a different entity (a third party) sometimes makes a payment to the recipient in respect of that supply. A common example of this situation is where a manufacturer makes a payment<sup>1</sup> (for example, a volume rebate) to a retailer for a supply made by a wholesaler to the retailer, as illustrated in the following diagram.<sup>2</sup>



<sup>1</sup> In this Goods and Services Tax Determination, a payment includes the giving of a rebate.

<sup>2</sup> Note that more than three entities may be in the supply chain.

3. An adjustment event<sup>3</sup> arising from a payment made by a third party occurs if it relates to:

- the supply by the entity making the payment (the 'payer' (entity A in the diagram)) - and the payment has the effect of reducing the consideration the payer receives for that supply (Supply 1); and
- the acquisition made by the entity receiving the payment (the 'payee' (entity C in the diagram)) - and the payment has the effect of reducing the consideration the payee provides for that acquisition (Supply 2).<sup>4</sup>

4. In this situation, other entities in the supply chain between the payer and payee (for example, entity B in the diagram at paragraph 2) are not directly affected for GST purposes by the payment. Therefore, an adjustment event does not occur for the acquisitions and the supplies made by these intermediate entities.

5. Where such a payment is an adjustment event under Division 19 of *A New Tax System (Goods and Services Tax) Act 1999* (the GST Act), an adjustment may arise in relation to the supply made by the payer (A) and the acquisition made by the payee (C).<sup>5</sup> Not all payments from a third party give rise to an adjustment event. A third party payment may instead be consideration for a separate supply of goods or services made by the payee. For example, where A makes a payment to C as consideration for C holding an advertising promotion for the goods manufactured by A. The character of the payment depends upon an analysis of the particular transaction. This Goods and Services Tax Determination does not apply to a payment from a third party that does not give rise to an adjustment event.

6. If an adjustment arises for the taxable supply made by the payer (A), then the payer is required to issue an adjustment note to the recipient of that supply (B).<sup>6</sup> An adjustment note is a document that:<sup>7</sup>

- is issued by the maker of the taxable supply to the recipient of that supply; and
- states the Australian Business Number (ABN) of the entity that issues the document; and
- contains such other information as the Commissioner determines in writing (*A New Tax System (Goods and Services Tax) Adjustment Note Information Requirements Determination (No. 1) 2000* (Adjustment Note Determination) sets out these additional requirements); and
- is in the approved form.

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<sup>3</sup> Under paragraph 19-10(1)(b) of *A New Tax System (Goods and Services Tax) Act 1999*, 'An adjustment event is any event which has the effect of changing the consideration for a supply or acquisition'.

<sup>4</sup> See paragraphs 40 to 42 of Goods and Services Tax Ruling GSTR 2000/19: making adjustments under Division 19 for adjustment events for an explanation that the adjustment event only affects the payer and the payee.

<sup>5</sup> Section 19-40 and section 19-70 of the GST Act. An adjustment does not arise where the adjustment event occurs in the same tax period as the GST and input tax credits are attributed.

<sup>6</sup> Subsection 29-75(2) of the GST Act.

<sup>7</sup> Subsection 29-75(1) of the GST Act. Goods and Services Tax Ruling GSTR 2000/1 (adjustment notes) explains the Commissioner's requirements for adjustment notes.

7. We recognise that the adjustment note requirements set out in paragraph 6 are not appropriate for an adjustment arising in a third party payment situation such as that shown in the diagram at paragraph 2. This is because the recipient (B) of the supply made by the payer (A) is not a party to the payment to the payee (C) and may have no knowledge of the payment. In addition, a document issued by the payer (A) to the payee (C) for the adjustment arising from the payment is not an adjustment note, because the payee is not the recipient of the supply made by the payer. While the requirements for an adjustment note may not be met, the Commissioner may treat as an adjustment note a particular document that is not an adjustment note.<sup>8</sup>

### ***Requirements for a particular document to be treated as an adjustment note***

8. For an adjustment event arising from a payment made by a third party, the Commissioner treats as an adjustment note a document that:

- is issued by the payer (A) to the payee (C); and
- shows the ABN of the payer (A); and
- satisfies the information requirements in clauses 3 and 4 of the Adjustment Note Determination<sup>9</sup> with the following five modifications. That is, the document:
  - (a) shows the name of the payee (C), where the price of the supply made by the payer (A) to the recipient of that supply (B) is \$1,000 or more (instead of showing the name of the recipient of the payer's supply (B));<sup>10</sup> and
  - (b) shows the address or ABN of the payee (C), where the price of the supply made by the payer (A) to the recipient of that supply (B) is \$1,000 or more (instead of showing the address or ABN of the recipient of the payer's supply (B));<sup>11</sup> and
  - (c) shows the amount of the payment made by the payer (A) to the payee (C) (instead of showing the difference in the price of the supply before and after the adjustment event);<sup>12</sup> and
  - (d) states either:
    - that the payment includes GST (instead of stating that the difference in the price includes GST);<sup>13</sup> or
    - the amount of GST included in the payment (instead of the amount of the adjustment to the GST payable);<sup>14</sup> and

<sup>8</sup> Subsection 29-75(1) of the GST Act.

<sup>9</sup> For example, the Adjustment Note Determination requires the words 'Adjustment Note' stated prominently, the name of the payer or the agent of the payer, the issue date and a brief explanation of the reason for the adjustment.

<sup>10</sup> Paragraph 3(c) of the Adjustment Note Determination.

<sup>11</sup> Paragraph 3(d) of the Adjustment Note Determination.

<sup>12</sup> Paragraphs 3(f) and 4(f) of the Adjustment Note Determination.

<sup>13</sup> Paragraphs 3(h) and 4(h) of the Adjustment Note Determination.

<sup>14</sup> Paragraphs 3(h) and 4(h) of the Adjustment Note Determination.

- (e) shows the GST exclusive amount of the payment where the amount of GST payable is less than 1/11 of the payment (instead of showing the difference in the GST exclusive price of the supply before and after the adjustment event).<sup>15</sup>

9. Since the Commissioner treats such a document as an adjustment note, a payer entitled to a decreasing adjustment who holds a copy of a document that satisfies the requirements in paragraph 8 may claim the decreasing adjustment arising from the payment to the payee.<sup>16</sup> Also, the payee may need to make an increasing adjustment arising from the receipt of the payment from the payer.<sup>17</sup>

## ***Recipient created tax invoices and requirements for adjustment notes***

10. In the diagram at paragraph 2, entity B may have issued a recipient created tax invoice for the supply that entity A made to it. Where an adjustment arises from an adjustment event in respect of that supply, entity A would not issue an adjustment note, as entity B would usually issue a recipient created adjustment note.<sup>18</sup>

11. Where an adjustment arises as a result of a payment between the payer (A) and the payee (C), we recognise that since entity B is not a party to the payment by A to C, it is not appropriate for entity B to issue the adjustment note. For this reason, the Commissioner treats as an adjustment note a document issued by A to C that satisfies the requirements of paragraph 8. Also, A does not need to include the words 'Recipient Created' on the document that it issues to C.

## ***Example 1 – more than three parties in the supply chain:***

12. *Paul (a manufacturer) sells widgets to a distributor. The distributor sells the widgets to a wholesaler who sells them to Colin (a retailer), who then sells the widgets to consumers. Paul later pays a volume rebate to Colin based on the quantity of widgets that Colin purchased from the wholesaler. An analysis of the particular transactions between Paul, the distributor and Colin, shows that a decreasing adjustment arises for Paul and an increasing adjustment arises for Colin. Paul includes with the payment to Colin a document that satisfies the requirements specified in paragraph 8. This document is treated as an adjustment note that allows Paul to claim a decreasing adjustment. Colin makes an increasing adjustment.*

## ***Example 2 – recipient created tax invoice:***

13. *This example is based on the diagram in paragraph 2. An analysis of the particular transactions between A, B and C shows that an adjustment event occurs in relation to the supply made by A to B and in relation to the acquisition by C from B. In this example, B issued a recipient created tax invoice to A for the supply A made to B. A includes with the payment to C a document that meets the requirements specified in paragraph 8. This*

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<sup>15</sup> Subparagraphs 3(j)(ii) and 4(j)(ii) of the Adjustment Note Determination.

<sup>16</sup> Subsection 29-20(3) of the GST Act.

<sup>17</sup> Section 19-80 of the GST Act.

<sup>18</sup> Subsection 29-75(2) of the GST Act.

*document is treated as an adjustment note that allows A to claim a decreasing adjustment.  
C makes an increasing adjustment.*

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## **Commissioner of Taxation**

9 October 2002

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*Previous draft:*

Previously issued in draft form as  
GSTD 2001/D1

*Related Rulings/Determinations*

GSTR 2000/1; GSTR 2000/19;  
GSTR 1999/1;  
ANTS (GST) Adjustment Note  
Information Requirements  
Determination (No.1)  
2000

*Subject references:*

- adjustment event
- adjustment note
- adjustment note determination
- adjustment

- goods and services tax
- recipient created tax invoice
- recipient created adjustment note
- third party payment

*Legislative references:*

- ANTS (GST) A99 Div 19
- ANTS (GST) A99 19-10(1)(b)
- ANTS (GST) A99 19-40
- ANTS (GST) A99 19-70
- ANTS (GST) A99 19-80
- ANTS (GST) A99 29-20(3)
- ANTS (GST) A99 29-75(1)
- ANTS (GST) A99 29-75(2)
- TAA 1953 37

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ATO references:

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