GSTR 2000/15 - Goods and services tax: determining the extent of creditable purpose for claiming input tax credits and for making adjustments for changes in extent of creditable purpose

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Goods and Services Tax Ruling
Goods and services tax: determining the extent of creditable purpose for claiming input tax credits and for making adjustments for changes in extent of creditable purpose

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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.

*[**Note**: This is a consolidated version of this document. Refer to the Tax Office Legal Database (http://law.ato.gov.au) to check its currency and to view the details of all changes.]*

What this Ruling is about

1. This Ruling explains the Commissioner's view on the meaning of 'creditable purpose' in Divisions 11, 15 and 129 of *A New Tax System (Goods and Services Tax) Act 1999* ('GST Act').[1] Unless otherwise stated, all legislative references in this Ruling are to this Act.

2. Certain terms used in this Ruling are defined or explained in the Definitions section of the Ruling. These terms, when first mentioned elsewhere in the body of this Ruling, will appear in **bold** type.

3. The Ruling also explains several possible methodologies for determining the extent of creditable purpose. These methodologies may be useful for determining your **input tax credits** in respect of acquisitions and importations, and is relevant for calculating any later **adjustments** for change in extent of creditable purpose.

4. Under the GST Act the Commissioner may determine ways in which to work out the extent to which a **creditable acquisition** or **creditable importation** is for a creditable purpose.[2] This Ruling is not a determination under those provisions. However, we do provide guidance for determining the extent of creditable purpose, and set out

[1] Division 129 of the GST Act provides for adjustments for change in extent of creditable purpose. We will explain the operation of this Division in another publication.
[2] Subsections 11-30(5) and 15-25(4).

methods we consider acceptable for making adjustments for changes in the extent of creditable purpose.

5. A separate GST Bulletin is being published which explains methods of apportionment of input tax credits on car expenses, where you use one of the four substantiation methods for claiming deductions under Division 28 of the *Income Tax Assessment Act 1997*.

6. This Ruling applies to all entities registered for the Goods and Services Tax ('GST') or required to be registered that make claims for input tax credits.

7. The 'extent of creditable purpose' is one of the several criteria used in determining eligibility for input tax credits for acquisitions and importations. This Ruling does not consider the other requirements of sections 11-5 and 15-5 for eligibility for input tax credits. For example, the requirement to be registered is not considered in this Ruling.

8. This Ruling does not cover the situation where input tax credits need to be apportioned because you **exceed the financial acquisitions threshold** and you also make **taxable supplies** or **GST-free supplies**. Apportionment of input tax credits relating to financial supplies exceeding the financial threshold will be dealt with in another publication. Nevertheless, the general principles discussed in this Ruling will have relevance to all acquisitions and importations, including those used to make financial supplies.

9. This Ruling does not give a detailed explanation of the meaning of the term 'enterprise'. This is covered in a separate publication.[3]

Date of effect

10. This Ruling applies on and from 8 July 1999 (the date of Royal Assent to the Goods and Services Tax ('GST') legislation) and may be relied on immediately.

Note: The Addendum to this Ruling that issued on 18 December 2002 applies on and from 1 July 2000 except for the amendment that substitutes footnote 26 (in paragraph 66), which applies on and from 23 May 2001.

[3] The Commissioner's view on the meaning of the term 'enterprise' is explained in MT 2000/1, which deals with the meaning of 'enterprise' in the *A New Tax System (Australian Business Number) Act 1999* (ABN Act). The ABN Act definition of 'enterprise' is equivalent to that contained in the GST Act.

Background

11. If you are registered or required to be registered, GST is payable by you on the taxable supplies that you make. However, you may be entitled to input tax credits for the GST included in the price of things you acquire for your enterprise and for the GST paid on importations.

12. When you first claim an input tax credit for an acquisition or importation, the amount of credit you are entitled to depends on how your planned use of the acquisition or importation in your enterprise compares to the total use. This is the extent of your creditable purpose. The amount of your entitlement to an input tax credit is reduced if the thing is only partly for a creditable purpose.

Example

13. If you acquire a computer which you plan to use 60% in your enterprise for a creditable purpose, you are entitled to claim 60% of the full input tax credit. The extent of your creditable purpose is 60%.

14. However, because your actual use may vary from your planned use over time, you may have to make an adjustment to make sure you have not claimed too much or too little input tax credit. This means you need to work out the extent to which you actually used the acquisition or importation for a creditable purpose.

15. Your **net amount** is the difference between the GST payable by you and your input tax credits. This amount must be paid to, or refunded by, the Commissioner.[4] Adjustments are either increasing or decreasing. An increasing adjustment increases your net amount for the tax period, while a decreasing adjustment decreases your net amount for the tax period. You include these amounts on your **GST return**.

Ruling

16. In order to claim the correct amount of input tax credits, you will need to determine the extent of creditable purpose for your acquisitions and importations on a reasonable basis that is apt to reflect your planned use of an acquisition or importation in your enterprise relative to the total use. It is your planned extent of

[4] Sections 33-5 and 35-5. Division 3 of Part IIB of the *Taxation Administration Act 1953* allows the Commissioner to apply the amount owing as a credit against tax debts that you owe to the Commonwealth.

creditable purpose for that acquisition or importation which is relevant for claiming input tax credits. (See paragraph 33.)

17. Where the extent to which an acquisition or importation is subsequently applied for a creditable purpose differs from the planned extent, you need an appropriate basis for calculating the extent of that change of use. In these cases you need to work out your actual extent of creditable purpose for the acquisition or importation. (See paragraphs 71 and 81.)

18. Where the extent of creditable purpose is and remains at 100% of the total purpose, no apportionment is necessary. (See paragraphs 27 to 37.)

19. Where the extent of creditable purpose is less than 100%, you need to apportion the total purpose between that which is creditable and that which is not. (See paragraphs 27 to 37.)

20. Where the extent of creditable purpose is and remains at zero, you are not entitled to any input tax credits. (See paragraphs 27 to 37.)

21. When making adjustments for change in extent of creditable purpose, you should use information regarding the actual application of the acquisition or importation where it is possible to do so. If this is not possible or practicable, you should use some other fair and reasonable basis. (See paragraphs 81 and 82.)

22. We prefer you to use a direct method, where practicable, when determining the actual use of an acquisition or importation. If this is not possible or practicable, you can use an indirect method. (See paragraph 82.)

23. You make an acquisition or importation 'in carrying on your enterprise' if it is made in the course of conducting your enterprise, including during the commencement or termination of that enterprise. (See paragraphs 39 to 49.)

24. The views expressed by the Courts and by the Commissioner in Taxation Rulings, in relation to the words 'private or domestic' in subsection 51(1) of the *Income Tax Assessment Act 1936* ('ITAA 1936') and section 8-1 of the *Income Tax Assessment Act 1997* ('ITAA 1997'), are relevant for determining the meaning of those words in paragraphs 11-15(2)(b), 15-10(2)(b) and 129-50(2)(b). What is 'private or domestic' will depend on the circumstances of each case. (See paragraphs 57 to 68.)

25. For acquisitions and importations that have both a business and a private purpose, the Commissioner accepts that an appropriate basis of apportionment under income tax may provide a reasonable estimate of the extent of use for a creditable purpose where that is reflective of your actual use. A further apportionment will need to be

made if your business use for income tax includes use that is not for a creditable purpose (e.g., where you also make input taxed supplies) or if your business use for income tax has excluded creditable use. (See paragraphs 96 to 101).

26. If you make a creditable acquisition or creditable importation, you must keep records that show and explain all transactions and other acts you engage in that are relevant to that acquisition or importation. This includes records of your calculation of your input tax credits and net amount. (See paragraphs 105 and 106).

Explanations (this forms part of the Ruling)

DIVISIONS 11 and 15: Input tax credits for acquisitions and importations

27. You are entitled to input tax credits in respect of any 'creditable acquisition' or 'creditable importation' that you make.[5] One of the requirements for an acquisition or importation to be creditable, is that it be made solely or partly for a 'creditable purpose'.[6]

28. The meaning of 'creditable purpose' is stated in the same terms for both acquisitions and importations in the GST Act. It requires you to consider both of the following conditions:[7]

(i) you acquire a thing or import goods for a creditable purpose to the extent you do so in carrying on your enterprise;

(ii) you do not acquire a thing or import goods for a creditable purpose to the extent that:

(a) the acquisition or importation relates to making supplies that would be input taxed;[8] or

(b) the acquisition or importation is of a private or domestic nature.

29. However, an acquisition or importation can still be fully creditable if the only non-creditable use relates to the making of financial supplies not exceeding the financial acquisitions threshold.

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[5] Sections 11-20 and 15-15.
[6] Sections 11-5 and 15-5.
[7] Sections 11-15 and 15-10.
[8] Excluding acquisitions or importations that relate to: input taxed supplies made through an enterprise or part of an enterprise carried on outside Australia, subsections 11-15(3) and 15-10(3); and financial supplies where you do not exceed the financial acquisitions threshold, subsections 11-15(4) and 15-10(4).

Acquisitions and importations that are only partly creditable

30. Your entitlement to an input tax credit is reduced if the acquisition or importation is partly creditable.[9] An acquisition or importation is partly creditable if it is made only partly for a creditable purpose.[10] In addition, an acquisition (but not an importation) is partly creditable if you provide, or are liable to provide, only part of the consideration for the acquisition.[11]

31. When an acquisition or importation is partly creditable because it is only partly for a creditable purpose, the amount of input tax credit to which you are entitled depends on the extent of creditable purpose expressed as a percentage of the total purpose of the acquisition or importation.[12]

Calculating input tax credits

32. Formulae are specified in the GST Act for the calculation of input tax credits for acquisitions and importations that are partly creditable. A different formula is specified for importations, as the extent to which consideration is provided is not relevant for importations. The formulae are:

For acquisitions:[13]

Full input tax credit	x	Extent of creditable purpose	x	Extent of consideration[14]

For importations:[15]

Full input tax credit	x	Extent of creditable purpose

33. For the purpose of claiming input tax credits, you need to estimate on a reasonable basis the extent to which the acquisition or importation is for a creditable purpose. This means that at the time of acquisition or importation, it is your *planned* use of the thing for a creditable purpose that is relevant in working out your input tax credit. You need to make a reasonable estimate of the planned use of the acquisition or importation. This estimate could be based on:

- records you already have available from a previous period;

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[9] Sections 11-25 and 15-20.
[10] Subsections 11-30(1) and 15-25(1).
[11] Paragraph 11-30(1)(b).
[12] Subsections 11-30(3) and 15-25(3).
[13] Subsection 11-30(3).
[14] Expressed as a percentage of the total consideration for the acquisition.
[15] Subsection 15-25(3).

- records kept since you made the acquisition or importation, but before you lodge your Business Activity Statement (BAS);
- records kept for some other purpose, for example, income tax;
- your previous experience concerning the usage of similar acquisitions. (The methods explained below in relation to determining your actual use for creditable purpose (see paragraphs 87 to 104) may also help you determine your planned use where this is likely to reflect planned usage.);
- your business plan; or
- any other reasonable basis.

34. If your actual extent of use for a creditable purpose is different from your planned use, you may need to make an adjustment under Division 129. (See paragraphs 71 to 78).

Meaning of 'extent of creditable purpose'

35. The phrase 'extent of creditable purpose' is defined to mean the extent to which the creditable acquisition or importation is for a creditable purpose, expressed as a percentage of the total purpose of the acquisition or importation.[16]

36. The phrase, 'to the extent' appears in sections 11-15 and 15-10 which explain the meaning of 'creditable purpose'. The same phrase is to be found in section 8-1 of the ITAA 1997 and subsection 51(1) of the ITAA 1936. Under income tax law, the phrase 'to the extent' has been found to require an apportionment to be made in order to determine what part of a loss or outgoing is deductible. The Commissioner views the phrase 'to the extent' in the GST Act as incorporating the same apportionment concepts as under income tax law.

Apportionment under GST

37. As explained in paragraph 33, for GST purposes, it is the planned extent of creditable purpose that is relevant to the claiming of input tax credits on acquisitions and importations. The following principles apply to the apportionment of input tax credits:

[16] Subsections 11-30 (3) and 15-25(3).

- If the acquisition or importation is planned to be used only for a creditable purpose then it is fully creditable and there is no need to apportion.
- If it is planned to use the acquisition or importation in some distinct way both for a creditable purpose and some other purpose, apportion on that distinct basis. The acquisition or importation is partly creditable.
- If the acquisition or importation is planned to be used partly for a creditable purpose as well as some other purpose in some indeterminate way, apportion on some fair and reasonable basis. Again, the acquisition or importation is partly creditable.
- If the acquisition or importation is planned to be used only for a non-creditable purpose, it will not be a creditable acquisition or importation. Accordingly, no apportionment will be required.

When will an acquisition or importation be partly creditable, and therefore require an apportionment of input tax credits?

38. A creditable acquisition or importation will be partly creditable where the extent of creditable purpose is less than 100%.[17] That is, where your acquisitions or importations are:

(i) partly made in carrying on your enterprise; and/or

(ii) partly used to make **input taxed supplies**; and/or

(iii) partly of a private or domestic nature.

Acquisitions and importations made partly 'in carrying on your enterprise'

What is an 'enterprise'?

39. 'Enterprise' is broadly defined in the GST Act and includes activities where you are engaged in a business.[18] The activities of charitable and religious organisations, government bodies and trusts are also considered to be an enterprise. There are several exclusions including activities of employees and activities done as a private hobby. Whether you are carrying on an enterprise is a question of fact.

[17] You also need to make an apportionment where the extent of consideration you provide or are liable to provide for an acquisition is less than 100%.
[18] See also comments in paragraph 9.

When is an acquisition or importation made in 'carrying on your enterprise'?

40. You acquire a thing for a creditable purpose to the extent that you acquire it in carrying on your enterprise. The acquisition must be made in the course of the activities that constitute your enterprise. An acquisition is made 'in carrying on your enterprise' if it is made for the purposes of that enterprise, but not if it is made for some other purpose. You could engage in an activity that is usually done by the enterprise, but is not for the purposes of that enterprise.

Example

41. Boatco Pty Ltd is trustee for a discretionary trust which operates a business of importing and selling luxury boats. Boatco buys a cruiser solely for the private use of Mike and his family, who are the beneficiaries of the trust. That particular acquisition is not made in 'carrying on' Boatco's enterprise, even though the transaction was of the same type that the company usually conducted.

42. The test for determining whether you have made an acquisition in carrying on your enterprise is broader than the test for income tax deductibility. Under section 195-1, 'carrying on' is defined to include the commencement or termination of your enterprise. For example, in some circumstances the cost of a feasibility study incurred in commencing a business may not be deductible for income tax purposes, while acquisitions for the same study conducted in the course of commencing an enterprise could be creditable acquisitions under the GST Act.

Partly in carrying on your enterprise

43. You may make an acquisition partly for the purpose of your enterprise and partly for some other purpose. An example of this is where an employee also engages in an enterprise (e.g., a consultancy), and his or her acquisitions are used both in the enterprise and for the purposes of his or her employment. Another example would be where the acquisition is used partly in your enterprise and partly in some non-enterprise activity, for example a hobby.

Example – business and hobby

44. John conducts an interior design business from his home. He is registered for GST. John maintains a separate office where he meets clients and generally conducts his business. John also collects, sells and exchanges rare coins as a hobby. His coin collection is kept in a specially made display cabinet located on one side of his office.

John also uses his office to conduct research on rare coins and to telephone prospective buyers and sellers. For the purpose of GST, the design business is an enterprise, but the activities of the hobby are not. John's expenses in maintaining the office would be partly for his enterprise and partly for his hobby. He would need to apportion the input tax credits on these acquisitions.[19] In contrast, the acquisition of the display cabinet would not be made in 'carrying on' John's enterprise, and would not be for a creditable purpose.

Example – business and employment

45. Victoria operates a gift shop business. She is registered for GST. Victoria also is employed part time to teach painting at her local TAFE college. She is required to provide a number of art materials at her own expense to use in the art course. These acquisitions would not be made in 'carrying on' her enterprise, since employment activities are excluded from the definition of 'enterprise'.

Acquisitions made in carrying on an enterprise, but not directly linked to making particular supplies.

46. Carrying on an enterprise includes those activities that you do in actually managing or conducting that enterprise. Acquisitions or importations may not be directly linked to the making of any supplies, e.g., ASIC compliance costs, directors' fees or the costs of maintaining a register of shareholders. These may still be creditable acquisitions, provided you made them in carrying on your enterprise. However, if your enterprise makes input taxed supplies as well as taxable supplies or GST-free supplies, you still need to apportion the input tax credits on these types of acquisitions and importations. An alternative view has been raised that this last sentence is not consistent with the provisions of section 11-15.

47. This alternative view requires that the words '…to the extent that … the acquisition relates to making supplies that would be input taxed' in subsection 11-15(2) are to be interpreted as requiring some direct connection between the acquisition and the supply. It follows from this view that if the acquisitions cannot be directly linked to making input taxed supplies, the extent of creditable purpose is 100%.

48. In a different context, the High Court has interpreted the words 'relating to' as being 'extremely wide' and stated that the meaning must be sought 'in the context in which the expression is used'.[20] The

[19] Methods John could use to apportion these input tax credits will be explained later in this ruling (see paragraph 87 and following).
[20] *Tooheys Ltd v. Commissioner of Stamp Duties (NSW)* (1961) 105 CLR 602, at 620, per Taylor J. See also Kitto J at 618.

quote from the *Ronpibon Tin* case below (see paragraph 79) indicates that in the income tax context, where a certain expense is made for two or more purposes, it will need to be apportioned, because it 'serves both objects indifferently'. Directors' fees are given as an example of such an expense.

49. One possible consequence of the alternative interpretation is that all indirect and overhead costs of an enterprise that makes only input taxed supplies could be argued to be creditable acquisitions. This is clearly not the intention of the legislation. The Commissioner takes the view that the context of section 11-15 is that if acquisitions are made in carrying on an enterprise that makes input taxed supplies, even if those acquisitions are not directly related to making particular supplies, they are still indirectly related to making all supplies. For the purpose of section 11-15 acquisitions can relate indirectly to making input taxed supplies, and input tax credits need to be apportioned accordingly.[21]

Acquisitions or importations used partly to make input taxed supplies

50. Acquisitions or importations may be partly creditable because you use them partly to make input taxed supplies. Input taxed supplies are listed in Division 40 of the GST Act, and include:

(i) financial supplies;

(ii) residential rent (including some supplies of commercial residential premises);

(iii) sales of residential premises and supplies of residential premises by way of long term lease;

(iv) certain supplies of precious metals; and

(v) supplies of food through school tuckshops and canteens.

51. If you make supplies of residential rent, residential premises or precious metals, you will need to apportion your input tax credits on any acquisitions or importations that are used to make these supplies as well as to make taxable supplies or GST-free supplies. However, some special rules apply to financial supplies and to school tuckshops and canteens, even though they are input taxed supplies.

Financial supplies

52. If you exceed the financial acquisitions threshold and you also make taxable or GST-free supplies, Goods and Services Tax Ruling

[21] The above analysis would apply equally to importations under section 15-10.

GSTR 2000/22, which is about determining the extent of creditable purpose for providers of financial supplies, explains how to apportion your input tax credits.[22]

53. If the amount of input tax credits relating to your financial supplies does not exceed this threshold, and all your other supplies are taxable or GST-free, your acquisitions can still be fully creditable. However, if:

(i) the amount of input tax credits relating to your financial supplies does not exceed this threshold; and

(ii) you make other input taxed supplies, or you make acquisitions of a private or domestic nature,

you still need to apportion your input tax credits to the extent that you use your acquisitions or importations in making those other input taxed supplies or they are of a private or domestic nature.

School tuckshops and canteens

54. The supply of food by a non-profit body through a school tuckshop or canteen is input taxed if:

(i) the shop only supplies food; and

(ii) the non-profit body chooses to have all its supplies of food through the shop treated as input taxed.

55. If a tuckshop does not or cannot elect to be input taxed, its supplies are taxable or GST-free, in which case it can claim input tax credits in full.

56. Consequently, school tuckshops and canteens which supply only food make either:

(i) taxable or GST-free supplies; or

(ii) input taxed supplies;

and do not need to apportion input tax credits.

Where the acquisition or importation is of a private or domestic nature

57. An acquisition or importation will be partly creditable if it is partly of a 'private or domestic nature'. The question of whether an acquisition or importation is of a 'private or domestic nature' depends on the circumstances of each case.

[22] [Deleted]

58. The words 'private or domestic nature' are used in the ITAA 1936 and the ITAA 1997.[23] In these sections, the words are part of what is referred to as the negative limb of the test for deductibility for income tax. The positive limb of section 8-1 and subsection 51(1) requires the expenditure to be incurred in gaining or producing assessable income or necessarily incurred in carrying on a business for the purpose of gaining or producing assessable income.

59. There has been debate under current income tax law whether the positive and negative limbs of section 8-1 and subsection 51(1) are mutually exclusive. One view is that the positive limb and the 'private or domestic' part of the negative limb are simply stating the same test in different words. That is, if something has been incurred in gaining assessable income or necessarily incurred in carrying on a business, it cannot be private or domestic and vice versa.

60. This view finds support in the fact that some cases on the business/private borderline in income tax concentrate on the positive limb while others concentrate on the negative limb, without suggesting that they are dealing with different principles. Even cases that suggest some potential overlap consider that it is rare for an item of expenditure to satisfy the positive limb, and yet be considered to be of a 'private or domestic nature'.[24]

61. In income tax law, the Courts have considered the deductibility of various expenses that generally have a private or domestic nature. These include:

(i) travel expenses to and from work;

(ii) expenses for the necessities of life (such as food, clothing and shelter);

(iii) self education;

(iv) child care fees; and

(v) home office expenses such as rent, interest, electricity, etc.

The Courts usually decided these cases on their particular facts with no general principle stating that expenditure of a particular type is always private or domestic.

62. The Commissioner views the words 'private or domestic nature' in the GST Act as having essentially the same meaning as in the ITAA 1936 and ITAA 1997. The meaning of 'creditable purpose' in sections 11-15 and 15-10 can be seen as having positive and negative limbs, similar to section 8-1 of the ITAA 1997 and

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[23] Subsection 51(1) and section 8-1 respectively.

[24] *FC of T v. Hatchett* (1971) 125 CLR 494, contrast with *FC of T v. Forsyth* (1981) 148 CLR 203 and *John v. FC of T* (1989) 166 CLR 417.

subsection 51(1) of the ITAA 1936. The positive limb refers to the requirement that the acquisition or importation be made in 'carrying on your enterprise', while the negative limb excludes items of a private or domestic nature.[25]

63. We consider that the preferable view is that, as is probably the case under income tax law, there is little or no difference between the two tests in the enterprise/private borderline. Under the GST it would also be rare for an acquisition or importation to satisfy the positive limb and at the same time also be of a private or domestic nature. One consequence of this is that an entity, which is not an individual or a partnership, will rarely, if ever, make an acquisition in the course of its enterprise, which is of a private or domestic nature, where the acquisition is made for the purposes of the enterprise.

64. The Commissioner treats the body of income tax case law in the area of 'private or domestic' as establishing the principles applicable to the GST, unless some specific provision of the GST Act indicates a contrary outcome in a particular case.

Example - Private purpose

65. Renee has a hairdressing business, and is registered for GST. She obtains her own personal hairdressing products (shampoos, brushes, etc.) by making a separate order with her supplier. Renee incurs expenses travelling to and from her business premises, and pays for before and after school care for her children. These acquisitions are all of a private nature, and cannot be creditable acquisitions.

Example – Company providing benefits to employees that are subsequently used for the private purposes of the employees.

66. Alpha Pty Ltd operates a software development business and is registered for GST. It does not make input taxed supplies. Alpha provides cars to its sales representatives as part of their salary package, and pays FBT on these benefits. These cars are also available for the personal use of the sales staff when they are not working on company business. The cars are not acquired for the 'private or domestic' purpose of the company, even though the cars are ultimately used for the private purposes of employees. The extent of creditable purpose of these cars is 100%.[26]

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[25] As well as acquisitions and importations that relate to making supplies that would be input taxed.

[26] Input tax credits on the acquisition of most new motor vehicles were to be phased-in over the first two years of the operation of the GST (section 20 of the *A New Tax System (Goods and Services Tax Transition) Act 1999*). However, section 20 was amended to remove the phasing-in reductions with effect on and from 23 May 2001. Under section 69-10 of the GST Act the amount of input tax

Example – Private use by employees of a government entity

67. The Goodtown City Council provides cars for the use of its staff on Council business. Senior executives in the Council are able to use car pool vehicles to travel to and from work. While this home to work travel is private in nature for those executives who use the vehicles, it is not of a private nature to the Council. The extent of creditable purpose of these cars is 100%.

Example – Non-profit body

68. A religious institution owns a number of monasteries where members of the order live and work. The members are provided with the basic necessities (food, accommodation, etc.). While the benefits provided would be private in nature to the individual members, these costs would not be private or domestic to the religious institution itself. The extent of creditable purpose of these benefits is 100%.[27]

Creditable acquisitions compared with expenses that are deductible for income tax

69. Under the GST law, unlike under income tax law, there is no distinction between acquisitions of a capital or revenue nature. For this reason, input tax credits may be available in respect of an acquisition for which no immediate income tax deduction would be allowable, for example, the acquisition of an item of capital equipment. In addition, services for managing your tax affairs, the cost of which is made deductible for income tax purposes by a specific provision can be creditable acquisitions.[28]

70. Certain expenses that are not deductible for income tax are precluded from being creditable acquisitions or creditable importations, for example, entertainment expenses[29]. In addition, the acquisition of land under the 'margin scheme' cannot give rise to a creditable acquisition.[30]

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credit is restricted where the GST inclusive market value of the car exceeds the car limit.

[27] The activities of a religious institution are defined to be an 'enterprise' – paragraph 9-20(1)(f) of the GST Act.

[28] Section 25-5 of the ITAA1997.

[29] Division 69.

[30] Division 75.

DIVISION 129 – Making adjustment when your actual extent of use for a creditable purpose is different from your planned use

71. After an acquisition or importation is made, the extent to which it is actually applied or used for a creditable purpose may be different from the planned use. This means that the original input tax credit claimed may have been too much or not enough. Adjustments for changes in the extent of creditable purpose are subject to the provisions of Division 129 of the GST Act.

72. You apply a thing for a creditable purpose to the extent that you apply it in carrying on your enterprise. You do not apply a thing for a creditable purpose to the extent that the application relates to making supplies that are input taxed[31], or the application is of a private or domestic nature.[32] The discussion in paragraphs 39 to 68 regarding the meaning of 'enterprise' , 'private or domestic nature' and 'input taxed supplies' is equally applicable to the terms as they apply to Division 129.

73. Adjustments under Division 129 are made in subsequent tax periods called **adjustment periods**[33]. The number of adjustment periods you have for an acquisition or importation depends on its GST exclusive value and whether it relates to business finance. The adjustment periods for acquisitions or importations that do not relate to business finance are:[34]

GST-exclusive value of the acquisition or importation	Adjustment periods
$5,000 or less	Two
$5,001 to $499,999	Five
$500,000 or more	Ten

[31] Excluding financial supplies made through an enterprise or part of an enterprise carried on outside Australia: Subsection 129-50(3).
[32] Subsections 129-50(1) and (2).
[33] Section 129-90.
[34] Subsections 129-10(2) and 129-20(3).

You will not have an adjustment under Division 129 where the GST exclusive value of an acquisition or importation that does not relate to business finance is $1,000 or less.[34A] However, even where the GST exclusive value of the acquisition or importation is $1,000 or less, you may have an increasing adjustment under Division 138 if your registration is cancelled.

74. The formula for calculating the adjustment requires you to calculate your actual application for a creditable purpose as a percentage of total application. If this is the first adjustment you are making for the acquisition or importation, you calculate your change in extent of creditable purpose by comparing your actual application since acquisition or importation with your planned use at the time you claimed the input tax credit. However, if you have previously made an adjustment for the changed use of the acquisition or importation, you calculate the current period change by comparing the actual application over the entire period of use with the former application used when making that previous adjustment. You calculate the adjustment as follows:[35]

Full input tax credit	x	Change in extent of creditable purpose

75. If the extent to which the acquisition or importation has been applied for a creditable purpose has increased, you will have a decreasing adjustment. Conversely, if the extent of creditable purpose has decreased, you will have an increasing adjustment.

Example

76. Continuing the example in paragraph 13 (where your extent of creditable purpose for claiming your input tax credit was 60%). You subsequently find that from the time of acquisition to the end of your first adjustment period, your actual use of the computer for a creditable purpose is 75%. Hence the change in extent of creditable purpose is 15%. If the full input tax credit was $300, you will have a decreasing adjustment of $300 x 15% or $45. When you make this

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[34A] For adjustment periods for acquisitions or importations that relate to business finance, see subsection 129-20(2). You will not have an adjustment under Division 129 where the GST exclusive value of the acquisition or importation that relates to business finance is $10,000 or less (subsection 129-10(1)). See GSTR 2000/22. However, even where the GST exclusive value of the acquisition or importation that relates to business finance is $10,000 or less, you may have an increasing adjustment under Division 138 if your registration is cancelled. You should also note that section 129-25 may reduce the number of adjustment periods.

[35] Sections 129-70 and 129-75.

adjustment, it will decrease the net amount on your BAS in that tax period

77. For the purpose of making adjustments under Division 129, the actual application is measured from the time of acquisition until the end of each adjustment period. This means that the calculation of creditable purpose is a cumulative one, starting at the point of acquisition and ending at the end of the relevant adjustment period. This does not however, require the calculation of actual application to be the result of a continuous measurement of use. It will be sufficient to make a reasonable estimate based on a representative period, using one of the methods explained in paragraph 87 and following.

Exclusions to making adjustments under Division 129

78. You do not have an adjustment under Division 129 where:

- you have already had an adjustment under Division 130 (which is about goods applied solely to private or domestic use) for the acquisition[36]; or
- the GST-exclusive value of the acquisition or importation is at or below a certain amount. ($1,000 or $10,000 if the acquisition or importation relates to business finance[37]).

General principles of apportionment

79. The issue of apportionment has been the subject of considerable income tax case law. The essential principles underlying that case law emerged from the High Court decision of *Ronpibon Tin NL v. FC of T* (1949) 78 CLR 47, at 59 ('*Ronpibon Tin*') where Latham CJ, Rich, Dixon, McTiernan and Webb JJ said:

> 'It is perhaps desirable to remark that there are at least two kinds of items of expenditure that require apportionment. One kind consists in undivided items of expenditure in respect of things or services of which distinct and severable parts are devoted to gaining or producing assessable income and distinct and severable parts to some other cause. In such cases it may be possible to divide the expenditure in accordance with the applications which have been made of the things or services. The other kind of apportionable items consists in those involving a single outlay or charge which serves both objects indifferently. Of this directors' fees may be an example. With the latter kind there must be some fair and reasonable

[36] Section 129-15.
[37] Subsections 129-10(1) and (2).

> assessment of the extent of the relation of the outlay to assessable income. It is an indiscriminate sum apportionable, but hardly capable of arithmetical or rateable division, because it is common to both objects.'

The result in that case was that the Court rejected an arbitrary method under which the Commissioner disallowed a fixed percentage of expenses as relating to investment income and the case was referred back for apportionment in accordance with the principles quoted above.

80. The relevant principle established by the *Ronpibon Tin* case for income tax purposes is to apportion on the basis of information regarding the actual application or purpose of the expenditure where it is possible to do so. That is, where 'distinct and severable parts' are devoted to different purposes, apportion on the basis of those purposes. Other items which involve an expenditure that is dedicated to different purposes need to be apportioned on some 'fair and reasonable' basis.

Choosing a method for determining the extent to which an acquisition or importation is applied for a creditable purpose

81. You will need a method for determining the extent to which you actually applied the acquisition for a creditable purpose since acquisition. The most appropriate method depends on the circumstances of each case. In choosing a method to measure the use of an acquisition, the matters you could consider include:

(i) the nature of the acquisition and the ways of directly measuring its use; and

(ii) the value of the acquisition and the cost of directly measuring its use.

82. The method should where practicable use information regarding the use to which the acquisition or importation was applied as this accords with the basic principles explained in paragraphs 79 – 80.[38] We believe that the use of 'direct methods' (see paragraphs 88 and 89) accords with the basic principles explained above (see paragraphs 79 – 80) and will usually better reflect the extent of creditable purpose. If it is not possible or practicable to use a direct method, you could use some other fair and reasonable basis. You could choose not to use a direct method where, for example:

- you consider that an indirect method would be more appropriate; or

[38] These methods could also be used to estimate your planned use for a creditable purpose – see paragraph 33.

- that the cost of measuring the use of the acquisition is disproportionate to the cost of the acquisition itself; or
- it is impracticable to use a direct method in the context of your business.

83. Of the indirect methods, we believe the 'input based method' is more likely to reflect the principles outlined above (see paragraphs 79 – 80). Nevertheless, an output based method may produce a fair and reasonable estimate.

84. The use to which you put the item may also affect the choice of method. For example, where you could use a thing for private purposes as well as for making input taxed supplies, a different measurement method might be more appropriate, depending on the type of use. An output based (indirect) method would not be appropriate for determining the private use to which a thing is put, as output bears no relationship to private use.

85. The initial choice of method should be based on its appropriateness in the circumstances, and not just because it provides a more favourable result. Similarly, a change in method is acceptable if the reason for the change is that another method is now more appropriate, not merely that the alternative method will provide a more favourable result.

86. A combination of different methods might be required for the various acquisitions or importations made by an entity. For example, an entity might be carrying on different businesses or making supplies in different sectors, or there might be several kinds of businesses within a GST group.[39]

Types of methods for determining the extent of use for a creditable purpose

87. Apportionment methodologies can be broadly categorised as being either *direct* or *indirect*. Direct methods usually give the most accurate measure of the extent of creditable purpose and are, therefore, preferred.

Direct methods

88. These methods use variables that are a direct measure of the use of the acquisition or importation. Variables that are inherent to, or directly connected with, the acquisition or type of acquisition usually give a fair reflection of the use of the thing.

[39] GST Groups are covered by Divisions 48 and 149.

89. The variables are a direct link between the acquisition or importation and the use to which it is put. Some examples of these variables are:

(i) distance, for example, kilometres travelled by a motor vehicle;

(ii) time, for example, computer time spent on various activities;

(iii) transactions, for example, numbers of transactions of particular types; and

(iv) area, for example, floor area.

The method then simply expresses the relevant use as a percentage of total use.

Indirect methods

90. There are two main types of indirect methods, 'input based' and 'output based'.

91. The indirect methods attempt to estimate the usage of acquisitions and importations for creditable purposes. Indirect methods use variables that are not directly identifiable with the use of the particular acquisition. For this reason, they may not give an accurate measure of the creditable use of the acquisition or importation. However, they may provide a reasonable basis for the purpose of apportioning input tax credits.

92. Indirect methods may be appropriate in circumstances such as where there are overhead expenses or a large number of small acquisitions or importations and it is not cost effective to try to measure the use to which each separate acquisition or importation is put.

93. Indirect methods work on the assumption that measures of input and output provide an adequate estimate of the application of mixed-use inputs for the making of various supplies. These methods may be of limited use where some of the inputs (acquisitions or importations) or outputs (supplies) have a disproportionate value when compared with the total. To include these relatively large acquisitions or importations in the indirect method calculation may distort the result.

Input based indirect methods

94. These methods employ measures of some inputs to estimate the use of other inputs. However, they are only useful where you have already allocated input tax credits for some acquisitions or

importations on a direct basis to making taxable or GST-free supplies or to making input taxed supplies. You can use the proportion applied to making taxable or GST-free supplies out of the total allocated directly to apportion input tax credits in respect of those acquisitions with a mixed purpose, or where direct allocation was not possible. The proportion of acquisitions already allocated on a direct basis should be sufficient to give some reliability to the calculation. Some examples of input based methods are:

(i) the cost of acquisitions used to make taxable or GST-free supplies relative to the total costs of all acquisitions already directly allocated; or

(ii) input tax attributable to acquisitions used to make taxable or GST-free supplies relative to total input tax for acquisitions already directly allocated.

These methods provide the most accurate results where the percentage of unallocated acquisitions relating to making taxable supplies is similar to the proportion of direct costs already directly allocated to making taxable supplies. Examples of this method can be found at paragraph 114 and paragraphs 116 to 124.

Output based indirect methods

95. These methods utilise measures of output to estimate use of acquisitions or importations. For example:

(i) total value of taxable and GST-free supplies as a percentage of total supplies; and

(ii) net profit (or gross profit) from taxable and GST-free supplies as a percentage of total net profit (or gross profit).

Examples of this method can be found at paragraph 115 and paragraphs 116 to 124.

Using apportionment methods that you have already applied under income tax law

96. Paragraph 38 explained that an apportionment will be necessary when there is a mixed use of an acquisition or importation (e.g., only partly used in your enterprise, partly for making input taxed supplies or partly of a private or domestic nature). The types of acquisitions that typically require apportionment under income tax because of their use for private purposes include motor vehicles,[40] home computers, home telephone, home office expenses, etc. Some

[40] Refer to comments in paragraph 5.

expenses may need to be apportioned for the purposes of income tax, for other reasons, for example the expense is incurred partly for gaining or producing exempt income.

97. For acquisitions and importations that have both a business and a private purpose, the Commissioner accepts that an appropriate basis of apportionment under income tax may provide a reasonable estimate of the extent of use for a creditable purpose where that is reflective of your actual use.

98. Most taxpayers operate under an income tax year that ends on 30 June. However, under GST you will have either monthly or three-monthly tax periods. If you have established a business use percentage for the income tax year, the Commissioner will accept that figure as a reasonable estimate of the extent of creditable purpose for the GST tax periods ending during your next tax year, unless you are aware of a significant change in the extent of business use. You are still able to use a different percentage of creditable purpose for those periods, if appropriate, but you will need to keep additional records.

99. Where you do not currently use a method for income tax, e.g., you are just commencing your enterprise, then one of the methods outlined below will be acceptable to the Commissioner. You will need to keep records for an appropriate length of time as soon as possible after the acquisition is made. Once you have maintained the appropriate records during the initial tax period, there is no need to keep additional records unless you wish to establish a different extent of creditable purpose, or unless you are aware of a change in the extent of business use.

100. You may make an acquisition for which the cost is deductible for income tax purposes, but is nevertheless only partly for a creditable purpose. For example, where you make the acquisition only partly in carrying on your enterprise and partly for some other tax deductible purpose (as in the case of a consultant who is also an employee). Another example is where a business makes input taxed supplies as well as taxable supplies. The relevant expenses may all be deductible under income tax, but not creditable acquisitions under the GST Act. In these cases, you can use your income tax business percentage as a starting point, but you will need some method to further calculate your extent of creditable purpose. For this purpose, you could use the methods explained below.

101. Similarly, you may have needed to make an apportionment for income tax purposes for an acquisition which is only partly deductible for the purpose of income tax. The acquisition may nevertheless be for a creditable purpose. For example, costs incurred in gaining exempt income. Your business percentage could be used as a starting point for estimating your extent of creditable purpose.

Determining extent of use for a creditable purpose on certain types of acquisitions

102. There may be a number of approaches for calculating the extent of use for a creditable purpose. While the following are not the only methods, if you use them the Commissioner will accept that you have correctly calculated your extent of creditable purpose where those representative periods reflect your actual usage:

(a) Computer (including Internet expenses) - reasonable estimate based on a diary or log of the use of your computer kept for one month. An example of this method can be found at paragraphs 112 to 113.

(b) Home Office expenses:

(i) insurance and other occupancy expenses – reasonable estimate calculated on floor area. If the insurance relates to contents, a valuation basis may also be appropriate;

(ii) electricity – reasonable estimate based on a diary or log of your use of the home office kept for one month; and

(iii) other running expenses - reasonable estimate based on a diary or log of your use of the home office kept for one month.

An example of this method can be found at paragraphs 107 to 111.

(c) Telephone expenses - reasonable estimate based on a diary or log kept for one month of incoming and outgoing calls relating to both creditable and non-creditable purposes.

An example of this method can be found at paragraphs 107 to 111.

103. Diary or log records should be kept in the initial tax period for the category of acquisition, but can be relied on for other acquisitions of that type provided it is reasonable to expect that the usage pattern has continued for those acquisitions as well. The diary or log need not take any particular form, but must contain sufficient information to ascertain the purpose and amount of use of the item in question over the period. Ideally the log or diary should be kept over a representative period (of at least one month), that is one which approximates the average usage of the acquisition over time.

104. If you have made an acquisition for which a method is not specifically mentioned above, you can develop your own method provided it is fair and reasonable, and accords with the principles explained at paragraphs 79 to 80.

Record keeping – general requirements

105. If you make a creditable acquisition or creditable importation you must keep records that show and explain all transactions and other acts you engage in that are relevant to that acquisition or importation. You must retain those records for at least 5 years after the completion of the transaction or acts to which they relate. The records must be such as to enable your liability under the GST Act to be readily ascertained.[41]

106. It follows that you should retain records relating to the calculation and apportionment of input tax credits, and how you arrived at your net amount. Records you normally keep may be sufficient to satisfy these requirements. Where this is not the case, you should keep additional records.

Examples

Example – claiming input tax credits on home office type expenses

107. Toby operates a small business selling posters, comics, etc., over the internet and by mail order. He is registered for GST. He owns the premises from which he runs the business, and this also includes a flat, where Toby lives. The total area of the premises is 100 square metres, with 60 square metres relating to the flat and 40 square metres relating to a separate room for the business. Toby incurs the following expenditure in relation to the premises in the March tax period (all prices include GST):

Electricity	$450
Telephone	$580
Insurance (building only)	$330

108. Toby must apportion the input tax credits on those expenses that relate to both the business and the flat (as he cannot claim input tax credits for acquisitions of a private or domestic nature).

[41] Section 70 of the *Taxation Administration Act 1953.*

109. *Electricity* – as this is a variable expense, floor area would not be an appropriate means by which to apportion as it bears no relation to the amount of energy actually used. Over a typical month Toby uses a diary to record the number of hours worked in the business. He makes a reasonable estimate that 40% of electricity costs are attributable to his business activities and calculates his input tax credits as follows:

$450 x 1/11 x 40% = $16.36

110. *Telephone* - Toby uses the same telephone for business and private purposes. As this is also a variable expense, floor area would not seem to be an appropriate basis for apportioning the input tax credit on the telephone expense. For one month Toby keeps a note book by the phone where he records incoming and outgoing calls. This record indicates that 75% of all calls are business related. Toby can therefore apportion the input tax credit on the telephone expense as follows :

$580 x 1/11 x 75% = $39.54

111. *Building insurance* - this is a fixed occupation expense. A floor area basis would be appropriate to apportion this expense, as it reasonably reflects the portion of the insurance cost relating to the business. The input tax credit claim is calculated as follows:

$330 x 1/11 x 40/100 = $12.00

Example – Computer expenses: input tax credits and change in extent of creditable purpose.

112. Kent operates a business as a freelance journalist from his home and is registered for GST. He purchases a computer system to use in his business. Kent deals with many clients by e-mail, uses his computer and Internet connection to research topics for his articles, and has his business records on computer. Kent also plans to use his computer partly for private purposes. In his first tax period, he estimates his planned use of the computer to be 60%. He claims 60% of the full input tax credit.

113. Kent subsequently thinks that his actual business use of the computer may be higher than the 60% originally claimed. In a later tax period, Kent keeps a diary record for a typical month of his private and business use of the computer. This shows a business use of 80% with private use of 20%. As his actual business use of the computer has increased, he will have an decreasing adjustment in his first adjustment period. The amount of the adjustment will be 20% (i.e., 80% - 60%) of the full input tax credit.

Example – Input based indirect method

114. XYZ Pty Ltd (XYZ) owns a number of commercial premises and is registered for GST. XYZ leases the buildings to various businesses (taxable supplies). As part of its business, XYZ also owns a number of residential premises which are rented to private individuals (input taxed supplies). Some of the costs of the company's business are overheads which cannot be directly allocated to making either taxable supplies or input taxed supplies. XYZ can directly allocate its other costs to making either taxable supplies or input taxed supplies. XYZ could use an input based method as follows:

INPUTS			
Acquisitions - making taxable supplies		A	30,000
Acquisitions - making input taxed supplies		B	20,000
Acquisitions – overheads		C	10,000
Extent of creditable purpose	=	$\frac{A}{A + B}$	
	=	$\frac{30,000}{(30,000 + 20,000)}$	
Extent of creditable purpose (expressed as a percentage)	=	60%	

XYZ applies the extent of creditable purpose of 60% to the overheads of $10,000 and claims input tax credits on $6,000 of overheads as well as on the acquisitions for making taxable supplies of $30,000.

Example – output based indirect method

115. Roger makes input taxed supplies and taxable supplies from his enterprise. Some of his costs are overheads which he cannot directly allocate to making either taxable supplies or input taxed supplies. Roger could use an output based method as follows:

INPUTS		
Overheads		1,000
OUTPUTS		
Taxable supplies	D	2,000
Input taxed supplies	E	3,000
TOTAL	F	5,000

Extent of creditable purpose = $\frac{D}{F}$

= $\frac{2,000}{5,000}$

Extent of creditable purpose (expressed as a percentage) = 40%

Roger applies the extent of creditable purpose of 40% to the overheads of $1,000 and claims input tax credits on $400 of overheads as well as on any creditable acquisitions directly used in making taxable supplies.

Example - comparing input and output based indirect methods

116. Daniel is a carpenter who makes supplies of building services (taxable supplies). He also owns a number of residential rental properties (input taxed supplies).

117. Daniel has kept separate records of materials that he acquired to make taxable supplies and also of expenses that he incurred in making input taxed supplies. However, he has various overhead expenses for his office that he is not able to directly allocate to specific supplies. He has also kept a separate record of the total income from each activity.

118. Daniel's total supplies and acquisitions are as follows:

	Taxable supplies $	Input taxed supplies $	Total $
Sales	70,000	40,000	110,000
Direct expenses	35,000	15,000	50,000
Gross profit	35,000	25,000	60,000
Overheads			11,000
Net Profit			49,000

119. Daniel is able to allocate input tax credits on direct costs according to his record of their usage to make taxable or input tax supplies. However, as there is no direct basis of allocating the input tax credits on the overhead expenses, he needs to adopt some indirect basis. The possibilities are:

(i) an input based method: based on the costs of inputs solely used for making taxable and input taxed supplies (called direct costs); or

(ii) an output based method: based on the value of the taxable supplies and input taxed supplies.

120. *Input based method:* this method assumes that the overheads are consumed (for a creditable purpose) in the same proportion as the direct costs of making taxable supplies bears to the total direct costs. Therefore, Daniel should include only direct costs in the calculation. This calculation requires that the extent of creditable purpose and the extent of non-creditable purpose, as percentages, should add up to 100%.

121. Before Daniel uses this method, the amount of the direct costs already allocated should be sufficient so as to give some reliability to the calculation.

122. If Daniel uses all direct costs, he works out the extent of creditable purpose for overhead expenses as follows:

$$\frac{\text{direct cost of making taxable supplies}}{\text{total direct costs}}$$

$$= \frac{35{,}000}{50{,}000}$$

$$= 70\%$$

123. *Output based method:* this method gives a reasonably reliable result when overheads are used (for a creditable purpose) in the same proportion that the revenue derived from taxable supplies bears to total revenue. This calculation requires that the extent of creditable purpose and the extent of non-creditable purpose, as percentages, should add up to 100%.

124. Applying the output based method using revenue gives the following percentage of creditable purpose:

$$\frac{\text{revenue from taxable supplies}}{\text{total revenue}} = \frac{70{,}000}{110{,}000} = 63.64\%$$

Definitions

Adjustments

125. Adjustments are changes you need to make on your BAS to increase or decrease your net amount payable or refundable for a tax period. The changes may be needed to:

(i) increase or decrease the GST payable on supplies you made because something happened so that the amount of GST payable by you included on a previous BAS is no longer correct; or

(ii) increase or decrease the input tax credits for acquisitions or importations because something happened so that the amount of input tax credits you claimed for an acquisition or importation on a previous BAS is no longer correct.[42]

Adjustment period

126. An adjustment period for an acquisition or importation is a tax period applying to you that[43]:

(a) starts at least 12 months after the end of the tax period to which the acquisition or importation is attributable (or would be attributable if it were a creditable acquisition or creditable importation); and

(b) ends:

(i) on 30 June in any year; or

(ii) if none of the tax periods applying to you in a particular year ends on 30 June, ends closer to 30 June than any of the other tax periods applying to you in that year.

[42] Section 195-1.
[43] Section 129-20.

In addition, a tax period provided for under section 27-40 is an adjustment period for the acquisition or importation.[44]

Creditable acquisition

127. A creditable acquisition is an acquisition you use in your enterprise. You are entitled to an input tax credit for these acquisitions. You make a creditable acquisition if:

(a) you acquire anything solely or partly for a creditable purpose; and

(b) the supply of the thing to you is a taxable supply; and

(c) you provide, or are liable to provide, consideration for the supply; and

(d) you are registered, or required to be registered.[45]

Creditable importation

128. The term 'creditable importation' relates to goods you import to use in your enterprise. You are entitled to an input tax credit for these importations. You make a creditable importation if:

(a) you import goods solely or partly for a creditable purpose; and

(b) the importation is a taxable importation; and

(c) you are registered or required to be registered.[46]

[44] Section 27-40 deals with concluding tax periods.
[45] Section 11-5.
[46] Section 15-5.

Exceed the financial acquisitions threshold[47]

128A. Under Division 189, you exceed the financial acquisitions threshold in a particular month if, assuming that all the financial acquisitions[47A] you have made, or are likely to make, during the 12 months ending at the end of that month, or during that month and the next 11 months, were made solely for a creditable purpose, either or both of the following would apply:

- the amount of all the input tax credits to which you would be entitled for your financial acquisitions would exceed $50,000 or such other amount specified in the GST regulations;
- the amount of the input tax credits to which you would be entitled for your financial acquisitions would be more than 10% of the total input tax credits to which you would be entitled for all your acquisitions and importations (including the financial acquisitions) during the relevant months.[47B]

Financial supplies

129. Financial supplies have the meaning given by regulation 40-13 of the A New Tax System (Goods and Services Tax) Regulations 1999.

130. [Deleted]

GST-free supply

131. GST-free supply means a supply that is GST-free under Division 38 or under a provision of another Act, or the supply of a right to receive such a GST-free supply[48]. Division 38 provides that exports and supplies of certain things such as food, health, education, child care, religious services and farm land are GST-free. If a supply is GST-free, you do not charge GST on the supply, but you are entitled to input tax credits for things acquired or imported to make the supply.

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[47] Division 189.

[47A] Section 189-15 defines 'financial acquisition' as 'an acquisition that relates to the making of a financial supply (other than a financial supply consisting of a borrowing)'.

[47B] For members of a GST group, the financial acquisitions threshold is calculated under subsections 189-5(2) and 189-10(2) as if the whole group were a single entity.

[48] Subsection 9-30(1).

GST return

132. GST return is the approved form (it is a section of the BAS) on which you must account for GST and some other taxes. You account for GST on this form by using it to work out your net amount for the tax period.[49]

Input tax credit

133. The term 'input tax credit' relates to the GST included in the price you pay for an acquisition or the GST paid on an importation. An entitlement arises under section 11-20 (about creditable acquisitions) or section 15-15 (about creditable importations).

Input taxed supplies

134. Input taxed supplies means supplies that are input taxed under Division 40 or under a provision of another Act, or the supply of a right to receive such an input-taxed supply[50]. That Division sets out the supplies that are input taxed. They are financial supplies (section 40-5), residential rent (section 40-35), residential premises (section 40-65), certain supplies of precious metals (section 40-100) and school tuckshops and canteens (section 40-130). If a supply is input taxed, you do not charge GST on the supply, but you are not entitled to input tax credits for anything acquired or imported to make the supply.

Net amount

135. Net amount is the difference between your total GST payable and your total input tax credits for a tax period.[51] It can be increased or decreased by adjustments arising in the same tax period. You include your net amount for a tax period on your BAS.

Taxable supply

136. Taxable supply has the meaning given by sections 9-5 (the basic definition), 78-50 (about taxable supplies relating to insurance claims), 84-5 (about intangible supplies from offshore) and 105-5 (about supplies by creditors in satisfaction of debts).

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[49] Section 31-15.
[50] Subsection 9-30(2).
[51] Section 17-5.

137. Section 9-5 provides that:

'You make a taxable supply if:

(a) you make the supply for consideration; and

(b) the supply is made in the course or furtherance of an enterprise that you carry on; and

(c) the supply is connected with Australia; and

(d) you are registered, or required to be registered.

However, the supply is not a taxable, supply to the extent that it is GST-free or input taxed.'

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Commissioner of Taxation
7 June 2000

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Subject references:
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