

SGM/GST-classification-food-health-products -



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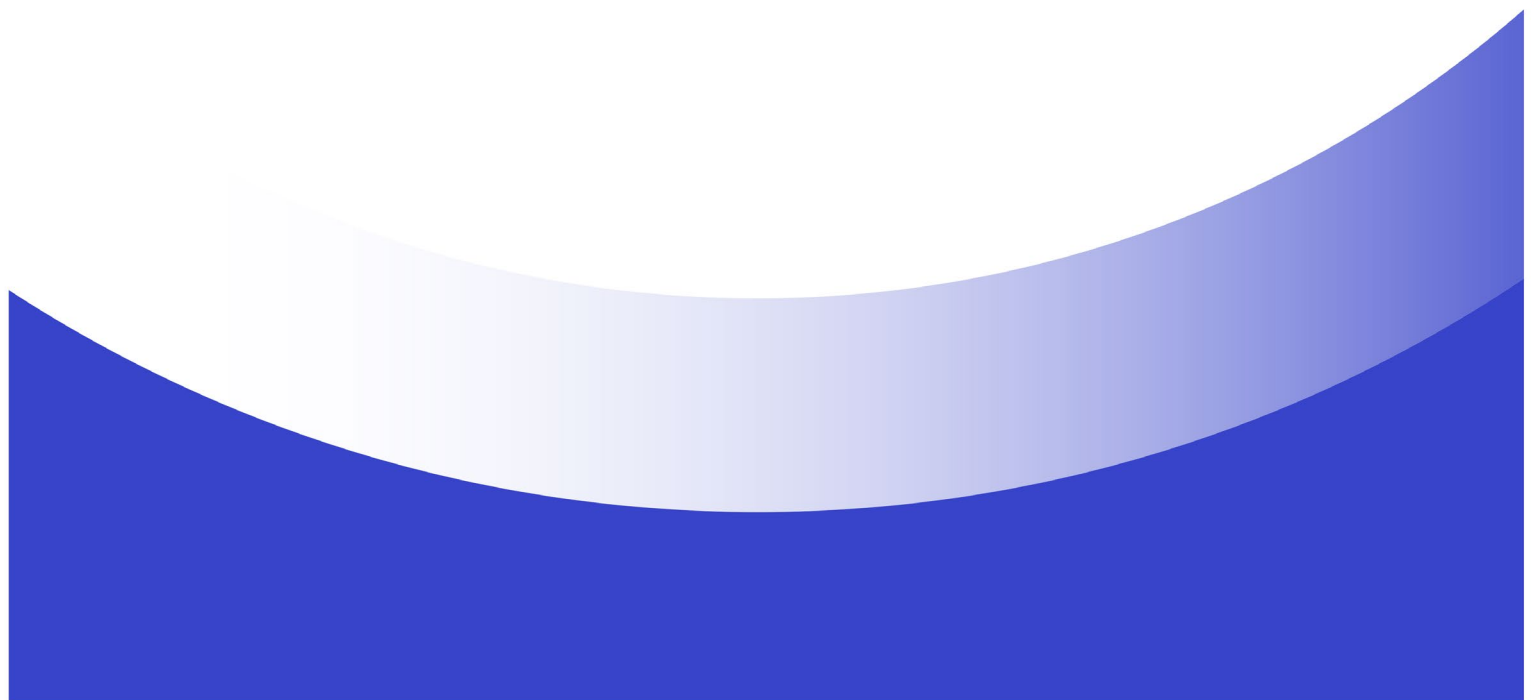


Australian Government
Australian Taxation Office

GST classification of food and health products

Self-review guide for medium to large businesses

GST classification process controls and methodology
1 August 2024





We acknowledge the Traditional Owners and Custodians of Country throughout Australia and their continuing connection to land, waters and community. We pay our respects to them, their cultures, and Elders past and present.

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Our commitment to you

If you rely on this document, you have the protections that apply to Guidance – see [How our advice and guidance protects you](#). To the extent that this document outlines a compliance approach, and you apply that approach in good faith to your own circumstances, the Commissioner will act in accordance with that approach.

1. Background and overview

1.1 Background

In a high-volume low-value transactions environment relating to the supply of food and health products, GST classification errors may lead to significant under-reporting of GST.

The way in which your systems create, capture, collate and report GST impacted transactions is fundamental to the correct reporting of your GST obligations. GST processes and controls must be fit-for-purpose and tailored to your circumstances.

A range of factors, including your business structure, size, complexity, and the industry in which you operate will impact the scale of your GST processes and controls. These processes and controls should be adequate to ensure that you meet your GST obligations.

The use of this guide is not mandatory. However, we encourage you to:

- undertake regular self-review of GST classification of your supplies including the product list (product master data) and the governing processes and controls
- adopt the better practice processes and controls listed in this guide.

All legislative references in this guide are to the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act).

1.2 Objective of this guide

The purpose of this guide is to provide you with practical step-by-step guidance to undertake regular self-reviews of the GST classification of your supplies. Use the guide to assess the robustness of your business system processes and controls that directly impact your GST classification decisions.

The core elements listed at section 2.1 of this guide can also be embedded into your existing product onboarding and reviewing processes to improve your decisions on GST classification of supplies. This is particularly critical as diverse new products enter the market.

Ensuring your GST classification decisions are correct at the time of onboarding new products will improve overall compliance with your GST obligations.

Note: if you are a small business food retailer with turnover of \$2 million or less, you may choose to use the [Self-review checklist for small to medium businesses – GST classification of food and health products](#) to conduct a self-review.

This guide is targeted at supplies listed. However, the core elements listed at section 2.1 of the guide and recommended better practice can be applied to all supplies, where the application of an exempting GST provision under the GST Act is being considered:

- [GST and food](#) (Subdivision 38-A)
- [GST and health](#), specifically [medical aids and appliances](#) (section 38-45)
- other GST-free health products (section 38-47)
- drugs and medicinal preparations (section 38-50)
- Schedules 1, 2, and 3
- the *A New Tax System (Goods and Services Tax) Regulations 2019* (GST Regulations).

1.3 Structure of this guide

This guide is separated into stand-alone sections, each of which play an integral part in the overall self-review process.

- [Part 1. Background and overview](#)
- [Part 2. GST classification process and controls](#)
- [Part 3. Self-review methodology](#)
- [Part 4. More information](#)
- [Appendix A: Self-Review Checklist - Better practice GST classification process](#)

2. GST classification process and controls

Correct GST classification of supplies is a significant focus area for the ATO. Incorrectly classified supplies lead to inequity in GST revenue collections and causes competitive disadvantages across supply chains. This has negative rippling effects across entire supply chains and erodes community confidence in the tax system.

Our compliance and assurance programs have identified that GST classification errors often manifest from gaps in governance processes and controls in respect to the new product onboarding reviewing and updating of GST classification of supplies.

A GST reporting system that incorporates robust GST classification processes and controls will promote accuracy and transparency in GST classification decisions. It will also improve confidence in the business systems used to manage and correctly report your GST obligations.

2.1 Core elements

The core elements listed here are a critical aspect of your GST product classification process.

The outcomes of the self-review will provide you with objective evidence to understand gaps in your systems, relevant governance processes and controls.

The review outcomes will also help you determine the extent to which the GST product classification risk is present in your business systems and will inform any corrective action required to address the identified gaps.

2.1.1 Do you have a GST classification process in place?



If you retail, wholesale, manufacture, import, or are developing new products for sale, do you have a process to determine the correct GST classification of those items?

It is better practice to have a methodical GST classification process.

Depending upon your business type (manufacturer, wholesaler or retailer), size and nature of supplies you make, the process of GST classification of your supplies can be highly systematic or ad hoc. The process can be manual or automated. Whichever process you choose to apply, it should ensure that GST on your supplies is accurately applied.

2.1.2 Is your GST classification process documented?



Do you have a GST classification process that is documented, accessible, understood, and is regularly used?

It is better practice to document your GST classification process and integrate this into your work practices. This may be in the form of step-by-step instructions or flowcharts with instructions recorded for each step.

Documenting your process ensures clarity, consistency, and transparency in GST classification decisions.

Document the end-to-end process of how you classify your supplies for GST.

You can tailor this process to your specific circumstances. However, make sure that it is fit-for-purpose and ensures correct GST classification on your supplies.

2.1.3 Is your GST classification process well-designed?



Does your GST classification process include clearly articulated controls for assessment and updating of classification, review, and approval points?

Depending on the business type (manufacturer, wholesaler or retailer), size and nature of supplies, the GST classification of supplies process can be very simple or highly sophisticated.

A well-designed and documented GST classification of supplies process includes the following features, ensuring business system integrity, transparency, and completeness:

- nominates a person for the process and make them responsible to ensure accountability
- maintains a current list of all stakeholders across functional areas such as information technology and taxation, who are key to managing your systems, processes and relevant product lists (product master data)
- specifies process roles and accountabilities for stakeholders, such as the business, information technology and taxation functions in relation to the management of your systems, processes and relevant product lists (product master data)
- ensures undertaking own objective and independent assessment of the GST classification of products purchased as stock, imported or produced, rather than relying on the GST classifications of similar suppliers or other suppliers in the supply chain¹
- outlines a process and accountability framework for who, when and how your business will seek external advice, for example, from the ATO or third-party providers such as GS1 Australia² (food only) and tax advisers
- maintains a step-by-step new product set-up (onboarding) process, which documents confirmation of the GST classification, information systems, naming conventions, data validation rules and data formats
- allows controlled inbuilt flexibility to assign GST classification of supplies for different settings, for example, an apple sold at a café for consumption on the premises is taxable but takeaway is GST-free

¹ One of the common errors we see in practice is taxpayers relying upon their supplier's GST classification rather than determining and documenting their own GST treatment. GST classification must be evaluated at the point of supply along the commercial chain to its final consumption in Australia.

² GS1net, includes the GS1net Registry, which is an internet-based service where manufacturers and other suppliers can find details, including the ATO-confirmed GST rate, on a large number of food and beverage items. Law Administration Practice Statement [PS LA 2012/2 \(GA\)](#) *GST classification of food and beverage items* sets out the arrangement the ATO has with GS1 Australia to ensure food and beverage items shown on GS1net are correctly classified for GST purposes.

- ensures you have in place appropriate automated system or manual controls for your product lists (product master data), such as authorisation requirements to amend the GST codes, segregation of duties for product onboarding and review
- mandates regular reviews to maintain data quality including updating process and systems used for authorisations, timeframes, and audit trails
- requires periodic reviews of your control framework
- requires to regularly test, if the GST classifications in the product list (product master data) match with the point of sales (POS) environment
 - it is considered better practice to undertake this check, and the review of your control framework, annually; however, the size, frequency of product turnover and changes, and the identification of GST classification errors are factors that would influence review timeframes in accordance with an entity's risk appetite – for example, larger entities often run GST code testing over their monthly sales data as part of their monthly business activity statement (BAS) process
- contains a data governance policy, such as data access, data security and compliance with relevant regulations.

Check the design features of your GST classification of supplies process against this recommended better practice list.

You can also use the Self-review checklist – Better practice GST classification process at [Appendix A](#) to this guide to assess the robustness of controls in place for your product classification process.

2.1.4 Better practice for new product onboarding process to set up your product list (product master data)



Do you have robust controls for onboarding new products in your systems and for relevant product lists (product master data)?

Correctly classifying the GST status of any new products and ensuring that this is accurately reflected in your systems and relevant product lists (product master data) is critical to accurately account and report your GST obligations.

We recommend that your new product onboarding process incorporates the following features to align with the recommended better practice:

- a clearly articulated and accessible checklist of the steps, to be followed by the responsible persons when setting-up or adding new products including the assigning of correct GST codes
- an onboarding process that imports or considers approved classifications on National Product Catalogue³ (GS1 Australia), including the steps to take when in disagreement

³ Subscription-only service.

- includes all pertinent product details, such as the product identifier, product description, size, composition, weight, usage, design features, marketing, packaging, onboarding date, effective date, and the GST rate
- ensures consideration of approved classifications in ATO public advice for relevant products (which includes the ATO's [Detailed food list](#) (DFL))
- provides guidelines to consider applying for a private ruling if the GST classification is uncertain
- ensures that you document the reasons if you decide not to follow the ATO view in ATO public advice or a private ruling issued to you
- includes a well-defined workflow process to enable a seamless collaboration between stakeholders responsible and accountable for managing your systems and relevant product lists (product master data)
- requires you to develop and maintain a clear approval and authorisation process for the review of the GST code assigned when onboarding a new product
- requires you to develop and maintain a list of authorised information technology personnel accountable for the architecture, management of applications, databases, and business processes
- requires you to develop and maintain a list of responsible and accountable business subject matter experts including taxation, who will create the standard supplies master data definitions, policies and rules, remediate data quality issues and maintain privacy and protection
- requires you to develop and maintain a list of the electronic systems and subsystems used to set up a new product you supply
- requires you to develop and maintain a GST codes list and description of each code to be used for GST-free, taxable supplies, mixed or composite supplies
- ensures that the GST codes in your systems and lists are hard-coded and only authorised personnel with approval have access to amend these codes
- outlines clear instructions, where GST codes or the GST classification of the product is not hard-coded, which should include a process for assigning the appropriate GST code and the approval (typically by the tax or finance function) to ensure accuracy of the GST codes
- requires you to develop and maintain detailed instructions, including the approval process, where a supply requires an appropriate apportionment of taxable and GST-free elements
- requires you to clearly define and maintain a set of master data rules for the execution of different business and taxation requirements – for example, a taxable supply can be GST-free if it is for export and meets the criteria in section 38-185.

2.1.5 Better practice to maintain and review your systems and relevant product lists (product master data)



Do you have a process for the maintenance and review of your systems and master data?

Regardless of the size of your product lists (product master data), maintenance and review are essential to ensure the reliability of your data and to correctly classify your products for GST.

Check the design features of your data maintenance and review process against the following recommended better practice list:

- a change management workflow, approval process for amending a product's attributes including GST codes and change audit trail
- a regular backup and recovery process to prevent data loss
- a regular review of the product list (product master data) to amend, inactivate or archive products (it should not be a set-and-forget approach)
- automation of the regular review process by using customised product review software where a large product list (product master data) requires review (for smaller product lists, the process specifies manual review)
- a requirement to undertake regular reviews of associated business systems rules and conditions to ensure that they are still appropriate and result in the right GST outcomes
- review mechanisms that identify differences in GST treatment of the same product between a wholesaler and retailer, you and your supplier, any variations to the approved GS1 classification for food products and the settings in which the food items are sold (takeaway versus on-premises consumption, et cetera)
- regular GST classification or code analysis as part of the BAS preparation process
- a process for the tax team to amend GST classification and codes as they would usually have to contact the accounting, finance or information technology team to do this
- a process (automated or manual) to report any GST classification and code amendments to the tax team for amending BAS where appropriate.

3. Self-review methodology

How to self-review your product master list

Your self-review methodology should be tailored and fit-for-purpose to suit your individual circumstances, such as the type of the business in the supply chain (manufacturer, wholesaler or retailer) and size of the business.

For example, in a large retail setting, this can be part of an integrated information technology environment with automated systems and manual GST controls.

A not-for-profit entity may need to consider [GST concessions for not-for-profits](#)

We recommend reviewing the full product list for correct GST classifications. However, you may take a risk-based approach and prioritise non-taxable products in the list.

The following step-by-step methodology will assist you in developing a tailored approach, specific to your business to undertake a streamlined and efficient self-review process.

Step 1: Which entity to review?

Select the entity or GST group representative to be the subject of your GST product classification self-review. This should be the entity that is responsible for reporting the GST on supplies.

Step 2: Full product list

Extract a full list of the products supplied, including the recommended fields listed (where available):

- product code, GTIN (global trade item number) or another identifier
- product name
- product description
- product category
- product supplier
- product status (active or inactive)
- date – product onboarded⁴ (entered in the sales system or PoS system)
- date – product commenced sale
- date – product became inactive (stopped sale)
- date – product GST status amended
- digital label (digital version of the information on the product)

⁴ Product onboarding usually happens earlier than when sale of the product commences.

- ingredients (%)
- size and packaging
- customer (domestic or export)
- customer usage of the product (for example, wholesale or manufacturer taxpayers)
- GST code
- GST rate.

Step 3: Categorise your products

Categorise the product list according to its current GST classification:

- taxable (10%)
- mixed supplies (>0 but <10%)
- GST-free supplies (0%).

It is recommended to use an analytical tool to undertake this exercise and record your results for each product category.

Step 4: Review each product category

Review the GST classification for each product category as follows:

A. Taxable – products with a GST classification of 10%

- Group like product types, for example, multiple packaging of the same product or duplicates.
- Filter out all products where you have already adopted the best practice for your new product onboarding process and determined the GST classification as taxable in accordance with the GST Act⁵, relevant ATO public advice, relevant private rulings issued to you, the [DFL](#) or National Product Catalogue (GS1 Australia) for food.
- List the remaining products and take the steps at D below.

B. Mixed supplies – products with a GST classification of >0 but <10%

- Review each product, to determine whether it is:
 - a mixed supply or a composite supply with reference to Goods and Services Tax Ruling [GSTR 2001/8](#) *Goods and services tax: Apportioning the consideration for a supply that includes taxable and non-taxable parts*
 - GST-free supply of food packaging with reference to Goods and Services Tax Determination [GSTD 2000/6](#) *Goods and services tax: when is the supply of food packaging GST-free in terms of section 38-6 of the A New Tax System (Goods and Services Tax) Act 1999?*

⁵ Section 9-5 and Division 38 of the GST Act.

- Filter out all products where you have determined the GST classification and GST rate as a mixed or composite supply in accordance with the GST Act and the ATO public advice listed in the previous dot point.
- List the remaining products and go to step 5.

C. GST-free supplies – products with a GST classification of 0%

- Group like product types, for example, multiple packaging of the same product or duplicates.
- Filter out all products that are supplied only as exports.
- Filter out all products where you have already adopted the best practice for your new product onboarding process and determined the GST classification as GST-free⁶ in accordance with the GST Act, relevant ATO public advice, relevant private rulings issued to you, the [DFL](#) or National Product Catalogue (GS1 Australia) for food
- List the remaining products and take the steps at D below.

D. Confirm GST classification of products

For remaining products identified from the above steps, undertake a line-by-line review with reference to:

- published ATO advice
- relevant private rulings and other ATO guidance issued specifically to you
- [DFL](#) (provides the GST status of major food and beverage product lines)
- ATO-confirmed GST classification of specific products listed on the National Product Catalogue (GS1 Australia) for food
- Subdivision 9A of the GST Act – Taxable supplies
- Subdivisions 38-A and 38-B of the GST Act – GST-free supplies
- Schedules 1, 2 and 3 of the GST Act
- GST Regulations.

Step 5: Seek clarification of GST classification if uncertain

Create a list of all potentially misclassified products requiring further review.

Consider the appropriate channel (including ATO advice and guidance) for seeking specific external advice to confirm the GST classification of these products.

If you choose to seek ATO [tailored technical assistance](#), which includes the option of seeking a private ruling, include the following:

- the product extract from your master data including ingredients, composition and usage

⁶ Subdivision 38-A and 38-B of the GST Act, Schedules 1, 2 and 3 of the GST Act, GST Regulations.

- your view
- the ATO view (if known)
- factors you considered to determine the GST classification including any images and marketing information.

Step 6: Self-review outcomes

Document the outcomes of the self-review, including:

- its date and scope
- the person (or persons) or entity (or both) that has undertaken the review
- a list of misclassified products and any net GST payable or refundable for each product and tax period (consider the restrictions on claiming a refund under Division 142 of the GST Act)
- any corrective action required and implemented, such as
 - updating the GST classification for the misclassified products
 - updating your procedures and controls
 - requesting a private ruling
 - notifying the ATO of any net GST payable or refundable considering steps 8 and 9 below
 - notifying your customers or suppliers
- details of corrective action taken
- date when corrective action was taken.

Step 7: Update GST classifications

Correct the GST classification of misclassified products:

- Update your documented GST classification procedures to capture gaps identified during the self-review.
- If you have a significant number of products that you are continuously identifying as misclassified, we recommend you further review and update your systems and documented procedures to prevent the misclassification from reoccurring.
- Any remedial and corrective action you undertake should consider the principles and better practice as outlined in this guide.
- Ensure you document any remedial action taken. Include the date issue was identified, and the date it was corrected.

Step 8: Quantify net GST payable or excess GST refundable⁷

Identify the tax periods during which you supplied the misclassified products:

⁷ Consider the restrictions on claiming a refund under Division 142 of the GST Act.

- Obtain the sales data for all misclassified products within the tax periods covered by your period of review, that is either
 - 4 years from the day after the notice of assessment is given, or
 - from the date the products were first sold.
- Calculate the sales value of all misclassified products for each tax period.
- Calculate the net GST payable or refundable for each relevant tax period within the review period.

Step 9: Correcting GST errors

Assess your eligibility to correct GST errors in a later BAS using our [Correcting GST errors](#) guidelines.

If you are not eligible under our Correcting GST errors guidelines, either

- amend the BAS for relevant tax period or periods⁸, or
- consider making a [voluntary disclosure in the approved form](#).

If you make a voluntary disclosure, you can generally expect a reduction in [interest and penalties](#) charges that would normally apply.

4. More information

For more information, see:

- [GST health classification guidance](#)

⁸ Subject to period of review time limit restrictions and Division 142 of the GST Act.

Appendix A

Self-review checklist – better practice GST classification process

Step	Process control	Status (Yes or No)
1	Do you have a process for GST classification of your products?	
2	Is this process documented, easily accessible, understood, and regularly used in your business?	
3	Have you nominated a responsible person for undertaking the process?	
4	Does the process list the role of each stakeholder, such as business, accounting, information technology and taxation?	
5	Do you objectively assess GST classification of each product you purchase as stock, import or produce, independent of others in the supply chain?	
6	Does the process specify when and how your business will seek external advice, and from whom (for example, the ATO or third-party providers, such as GS1 Australia (food only) and tax advisers)?	
7	Does your process have step-by-step new product set-up (onboarding) instructions, outlining entry of product specifications and assign GST codes in the point of sales or other enterprise resource planning system?	
8	Does the process have system or manual controls such as reviewing, segregation of duties?	
9	Does the process include change management workflow?	
10	Does the change management process have controls (authorisations, time frames and audit trail) for amending the product specifications, GST codes, GST rates?	
11	Does the process have specific guidelines for classifying supplies including mixed supplies, composite supplies, et cetera?	
12	Does the process mandate GST classification or code analysis as part of the BAS preparation process?	

Step	System control	Status (Yes or No)
1	Does the process have data flowcharts for the new product onboarding, including control points?	
2	Does your process list all the information systems used and their function?	
3	Does the onboarding process list naming or data validation and format rules?	
4	Does the process have system controls, such as hard-coding GST codes, GST rates, business rules, authorisation, system access and audit trails?	
5	Does the process specify controls to regularly test and match classifications in the product master list with the point-of-sale system?	
6	Does the process mandate or specify regular reviewing of the business rules, GST codes and GST rates?	
7	Does the process specify regular backup and recovery process to prevent data loss?	

Next steps

Evaluate the positive and negative responses and plan to address them.

Positive responses

In the context of this checklist, an increased number of 'yes' responses indicates that you have robust controls in place for your product classification process. These affirmative answers demonstrate the degree to which the necessary measures are in place.

- Regularly review the existing controls in place.
- Strengthen them where necessary to prevent errors.

Addressing negative responses

- Develop a plan to address the negative responses.
- Define corrective actions and assign responsibilities and develop a timeline.
- Regularly monitor and evaluate the effectiveness of the plan.

Conduct a review of your product master list

Using the Self-Review Methodology in section 3 of this guide, conduct a review of your product master list and take relevant actions recommended in steps 6 to 9.

References

[Detailed food list](#)

[GSTD 2000/6](#)

[GSTR 2001/8](#)

[PS LA 2012/2 \(GA\)](#)

[ANTS\(GST\)A 1999 9-5](#)

[ANTS\(GST\)A 1999 Div 38](#)

[ANTS\(GST\)A 1999 Subdiv 38A](#)

[ANTS\(GST\)A 1999 Subdiv 38-B](#)

[ANTS\(GST\)A 1999 38-45](#)

[ANTS\(GST\)A 1999 38-47](#)

[ANTS\(GST\)A 1999 38-50](#)

[ANTS\(GST\)A 1999 Sch 1](#)

[ANTS\(GST\)A 1999 Sch 2](#)

[ANTS\(GST\)A 1999 Sch 3](#)

[ANTS\(GST\)R 2019](#)

ATO references

BSL: ISP

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