

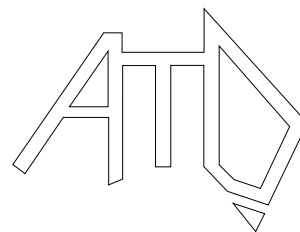
STB 10 - Jewellery

Sales Tax Bulletin

Number 10

Jewellery

Australian
Taxation
Office



Withholding and Indirect Taxes

Valid from 1 September 1997

Replaces *Streamlined Sales Tax* and The jewellery industry issued on 12 October 1992

About this bulletin

This bulletin explains how the sales tax law affects people who are in business in the jewellery industry. It is a public ruling for the purposes of section 77 of the *Sales Tax Assessment Act 1992* and may be relied upon by any person to whom it applies. It replaces any previous private or public rulings, if they are inconsistent with this bulletin, and is current as at 1 September 1997.

Warning: We regularly revise our publications to take into account changes in the law so if you are seeking to rely on anything contained in this bulletin, you should make sure that this edition is the latest.

If, after reading this bulletin, you need more information on how the sales tax law affects your business, contact your local Tax Office on **13 28 66** for the cost of a local call.

How does sales tax affect me?

If you are in business as a manufacturing jeweller, you're liable for sales tax on any taxable goods you manufacture which you sell or apply to your own use, unless an exemption applies. Under the sales tax law, a manufacturing jeweller can choose to be registered for sales tax purposes and receive a sales tax registration number.

Although you can choose whether or not to be registered, your choice will affect your entitlement to obtain some goods free of sales tax. If you do register, you will be entitled to obtain free of sales tax, certain goods used in your manufacturing activities by quoting your sales tax registration number to your supplier.

Who can register for sales tax?

You can apply for registration if you are in business and carry out any of the following activities (or intend to do so):

- manufacture goods;
- sell goods by wholesale (this generally covers sales to people who resell goods);
- sell goods (not of your own manufacture) by indirect marketing, e.g. through commission agents;
- sell raw materials to a manufacturer;

- sell goods to eligible Australian or foreign travellers in accordance with prescribed export rules; and
- carry out certain activities on behalf of manufacturers.

How do I register for sales tax?

To register for sales tax purposes, just complete an *Application for Registration - Sales Tax* form. These forms are available from your local Tax Office. If you don't have a tax file number (TFN), you must either apply for a TFN or provide sufficient proof of identity documents as listed in the *Proof of Identity Documents Information Sheet* (also available from your local Tax Office). Send us this identification with the completed application form. Once we register you, we'll send you a letter with your sales tax registration number on it.

How do I quote my sales tax registration number?

Once registered, you can quote your sales tax registration number in the following form to buy certain business inputs free of sales tax:

<p>I hereby quote Sales Tax Registration Number _____</p> <p>Name of person authorised to quote _____</p> <p>Signature of person authorised to quote _____</p> <p>Date _____</p>
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Note: This quotation must form part of the documentation for each tax-free purchase you make. If your supplier doesn't receive it, then he/she must charge you sales tax on the sale.

Do I have to quote every time I buy goods free of sales tax?

No. You can now give your suppliers a single quotation of your sales tax registration number to cover all your tax free purchases in a period where that period does not exceed one year (called a periodic quotation), in the following form:

<p>I hereby quote Sales Tax Registration Number _____ in respect of all goods obtained by me during the period _____ to _____ inclusive, except goods in respect of which I notify you to the contrary at or before the time of the relevant assessable dealing with those goods.</p> <p>Name of person authorised to quote _____</p> <p>Signature of person authorised to quote _____</p> <p>Date _____</p> <p>Note - The maximum period that can be covered by a periodic quotation is one year.</p>

What happens if I don't register?

If you choose not to register, you won't be able to buy your business inputs or, in some cases, your trading stock free of sales tax. You may be able to claim a credit for sales tax paid on such goods, but you will have to wait until you have produced goods from those raw materials, or have used those business inputs and have sold the goods or applied them to your own use before you can claim a credit.

For example, an unregistered manufacturing jeweller cannot buy tools and equipment free of sales tax. When that equipment has been used in the manufacture of jewellery and the first of those jewellery items is sold, a refund of the sales tax paid on the equipment becomes available by applying to the Tax Office.

Note: The minimum amount normally refunded is \$200, but you can add smaller amounts together to reach \$200.

Is there any small business exemption?

The sales tax small business exemption is available to those people who:

- were liable for \$10,000 or less sales tax during the last 12 months; and
- expect to be liable for \$10,000 or less sales tax during the next 12 months.

If you choose to use the small business exemption, you must pay sales tax to your suppliers when buying your business inputs or trading stock. You then do not have to charge sales tax to your customers when you sell goods, nor do you have to pay sales tax when you apply goods to your own use.

If, at any stage, you exceed the \$10,000 limit, you will have to calculate and collect sales tax on the current transaction. For more information, contact your local Tax Office on **13 28 66** for a copy of Sales Tax Bulletin Number 18 - *Small Business Exemption*.

What goods can I buy free of sales tax?

If you're registered, you can buy certain business inputs free of sales tax by quoting your sales tax registration number. Business inputs includes goods such as:

- raw materials;
- machinery, apparatus, tools, etc. used *mainly* in a manufacturing activity, e.g. work benches used *mainly* to perform manufacturing operations; and/or
- machinery, apparatus, tools etc. used *mainly* in an activity which directly supports the manufacturing activity, e.g. lighting within the manufacturing area.

Note: *Mainly* means to the extent of more than 50%.

You can also buy your trading stock which you intend to sell by wholesale and goods to be sold to eligible Australian or foreign travellers under the prescribed rules for export sales free of sales tax, by quoting your sales tax registration number.

These prescribed rules for export sales are explained in the booklet titled *Sales Tax - How to make export sales to overseas travellers* and in Sales Tax Bulletin Number 33 titled *Tax free sales to tourists*, both of which are available from your local Tax Office.

What goods can't I buy free of sales tax?

Not all goods that you buy for your business qualify for sales tax exemption. You can normally only buy business inputs and in some cases, trading stock free of sales tax.

When you buy goods that don't qualify for sales tax exemption you must not quote your sales tax registration number. Your supplier must then charge you sales tax. You may wish to tell your supplier that you're not claiming exemption on that purchase.

Some examples of goods you can't buy free of sales tax are:

- general-purpose road vehicles except in certain limited circumstances;
- mobile phones used *mainly* for general business or private purposes;
- staff amenities (such as tea and coffee making equipment, toilet paper etc.); and
- goods for use *mainly* in connection with administrative or selling activities (such as general stationery, fax machines, certain computers etc.).

What if I've already given my supplier a periodic quotation?

Where you've given your supplier a periodic quotation, but you're buying goods for which you're not entitled to quote, you must tell your supplier that you are not claiming exemption. The notice should be in the following form:

I hereby notify you that I am not quoting for the purchase of the following goods:

Description of goods _____

Date of transaction _____

Name of person authorised to make this declaration _____

Signature _____

Date _____

If you buy goods free of sales tax and then use them in such a way that they don't qualify for exemption, you will have to pay sales tax to the Tax Office.

What sales tax rate applies to jewellery?

Goods included at the Schedule 5 rate, currently 32% are jewellery, imitation jewellery, personal adornments, precious stones, semi-precious stones, pearls and imitation or synthetic stones.

Exempt goods include unprocessed precious and semi-precious stones (in the rough) and bullion.

When must I charge sales tax?

Unless an exemption applies to the transaction, you will have to charge sales tax if you:

- manufacture goods using materials supplied by your customer;
- sell goods by wholesale;
- sell goods through indirect marketing arrangements;
- sell goods you have manufactured in the course of any business;
- sell by retail goods that you bought or obtained free of sales tax by quoting a sales tax number; or
- apply to your own use goods that you have manufactured in the course of a business or obtained free of sales tax (for example, if a manufacturing jeweller makes a brooch to be given away as a gift or prize they must account for sales tax as if the goods were sold).

When don't I charge sales tax?

You don't have to charge sales tax when:

- the goods themselves are exempt (e.g. unprocessed precious stones in the rough);
- the person buying the goods quotes an exemption declaration (e.g. a non-profit school, a government department or a public benevolent institution declares that the goods are for their own use);
- the person buying the goods quotes their sales tax registration number;
- the small business exemption applies to you;
- the goods are second-hand; or
- the goods are sold by retail and you have already paid tax when you bought the goods.

Which activities involve manufacture?

With manufacture, something new is created and the item you create is commercially different from the goods used to create it. For example, taking a diamond, gold and other raw materials and making a brooch is manufacture. You start with individual components and end up with a brooch.

Examples of activities that involve manufacture include:

- removing a gem from an item of jewellery and setting it in a new mount;
- removing the gem, shoulders and setting of a ring, putting in new shoulders and setting and resetting the gem;
- removing a gem and setting, adding a setting of a different character, and resetting the original gem with some additional gems;
- fitting a new watch movement to watch cases whether the cases are new or second-hand and the movement requires adjustment;
- fitting a cap, hook and chain to an item to form a piece of jewellery; and

- setting a stone into a new or different ring, mount or band.

As these activities are manufacture, a sales tax liability will exist.

Who is a manufacturer?

A manufacturer is a person (not an employee) who manufactures goods, whether or not that person owns the materials out of which the goods are manufactured.

For example, if a customer brings a ring into a retail jeweller for a remake, and the retail jeweller sends the ring to a manufacturing jeweller, the retail jeweller is not considered to be the manufacturer. The delivery of the made up goods by the manufacturer to the retail jeweller will be an assessable dealing and the manufacturer will have the liability for the sales tax.

The retail jeweller in the previous example will have no further liability for sales tax. This would also apply where materials owned by the retail jeweller are supplied to the manufacturer for incorporation into goods for sale.

What is repair?

With repair, although the existing item has work done to it, it basically remains the same. You are really replacing or renewing a worn out or broken part of something that has already been made. You are not replacing or renewing the whole item. For example, replacing a lost stone in a necklace is a repair of the necklace and does not involve manufacture.

The re-assembling of an item that has been dismantled to repair some part or parts of it, or to replace some minor part, is also repair and not manufacture, provided that when the item is re-assembled, it is still the same item.

Jewellers often remake or remodel used and old-fashioned jewellery. This may, or may not be manufacture. Each case has to be determined on its own facts. For example, it would be manufacture if, in the course of remaking or remodelling a piece of jewellery, the original piece loses its identity by some means (e.g. being melted down into a condition indistinguishable from raw, unworked metal) and is then made up into a piece of jewellery.

Where a customer owns a ring and requests a jeweller to remodel it by changing the setting to a setting with a different character, this will be manufacture. The ring has lost its identity as a ring with a certain type of setting and now has a new identity, namely, a ring with a new setting.

Examples of activities which are considered to be repair are:

- re-assembling an item which has been dismantled to repair a part of it or to _ replace a minor part;
- replacing a setting in an item of jewellery with a setting which is similar in character;
- replacing part of a shank;
- re-fashioning a shank into a different size or style;
- setting a new stone to replace one which has been lost or damaged;
- repairing a worn under-rail;
- re-tipping of claws;
- removing, cleaning and resetting of stones;
- replacing a lost stone in a necklace; and

- reshaping of a ring band.

In these cases, there is no further sales tax liability for the jeweller, provided tax-paid materials are used in the repair. If materials used are taken from tax-free stocks, then sales tax will have to be accounted for on the purchase price of the materials used.

How do I calculate sales tax payable on my transactions?

When a taxable product is manufactured and sold or applied to your own use and no exemption applies, you calculate sales tax by multiplying an amount known as the **taxable value by the rate of tax applicable to the goods**. The usual taxable values as they apply to the jewellery industry are discussed on the following pages.

Where parties are not dealing at arm's length and this affects the price of the goods, the sales tax law requires that the taxable value of the goods reflects a price for which the goods could reasonably be expected to have been sold under an arm's length transaction. This bulletin must be read as subject to this rule.

Taxable value — where the jeweller supplies all the materials, manufactures goods and sells the completed goods by wholesale

A wholesale sale is a sale to a person who is purchasing goods to resell them, such as a retailer. The taxable value of a wholesale sale is *the price for which the goods were sold*. As a general rule, this will include all amounts you charge the purchaser, up to the point when the purchaser owns the goods.

Example: You sell diamond rings to a retailer for \$200 before tax. This is a wholesale sale, as the retailer will resell the goods. The taxable value of the goods will be \$200, as this is *the price for which the goods were sold*.

Taxable value — where the jeweller supplies all the materials, manufactures goods and sells the completed goods by retail

A retail sale is a sale to an end user. When you sell by retail, the taxable value is the price for which you could reasonably have been expected to sell the goods by wholesale under an arm's length transaction. This is known as the *notional wholesale selling price*.

The taxable value is readily determined when you sell the same type of goods by wholesale in significant quantities in comparable circumstances as your retailed goods. The following paragraphs give some methods of arriving at this value.

What if I sell by both wholesale and retail?

To arrive at the taxable value of the goods you have sold by retail, you can use one of the following 2 methods, depending upon the circumstances:

1. The actual wholesale price of similar goods sold in significant quantities to arm's length retailers in Australia in comparable circumstances.

Example: You sell diamond rings by retail for \$290 (excluding tax). If you also sell similar goods to arm's length retailers for \$200 before tax in comparable circumstances, the taxable value of the goods you sell by retail will be \$200 (i.e. the wholesale price), as this is the price for which you could reasonably have been expected to sell the goods by wholesale.

2. If you sell by wholesale at a range of arm's length selling prices, you can use the weighted average of your wholesale prices to arrive at the taxable value. For more details about this, contact the Tax Office on **13 28 66** for the cost of a local call.

What if I only sell by retail?

The Tax Office would expect that you would normally sell by wholesale at a price reflecting the sum of manufacturing cost, any research and development costs, wholesale selling expenses and a fair wholesale profit.

A simplified formula (known as a Safe Harbour) for finding this figure is available for manufacturing jewellers who sell goods by retail but do not sell significant quantities of similar goods to arm's length retailers in Australia in comparable circumstances. It is calculated easily by taking the manufacturing cost plus one third of the difference between that amount and the retail selling price (excluding tax) of the goods. A Safe Harbour is a statement of how to calculate taxable value that the Tax Office accepts as completely discharging a taxpayer's liability.

Manufacturing cost means the sum of:

- the cost of materials used to manufacture the particular goods;
- the cost of labour used directly in the manufacturing operations; and
- production, manufacturing or factory overheads.

Example: You manufacture and sell diamond rings by retail for \$500 (before tax). If the manufacturing cost of the goods is \$200, the taxable value is \$300, calculated as follows:

$$\$200 + 1/3 \text{ of } (500 - 200) = 200 + 100 = \$300.$$

For simplicity, once a taxable value has been calculated in this way, it can then be expressed as a percentage off the retail selling price. In this particular example, it is retail selling price (before tax) less 40% (i.e. \$500 - 40% of 500 = \$300).

Some manufacturing jewellers may only have a retail price that includes sales tax and may therefore have difficulty in using the previous calculation. If you know only the tax inclusive retail selling price and the manufacturing cost of the goods, the taxable value can be calculated as:

$$\frac{(2C + RSP)}{(3 + R)}$$

where:

C = the manufacturing cost of the goods

RSP = tax inclusive retail selling price

R = the rate of tax of the particular goods divided by 100

In the above example the tax inclusive retail selling price of goods taxed at 32% would be \$596 (\$500 plus \$96 being 32% of notional wholesale price of \$300). Applying the formula produces the same taxable value of \$300 as follows:

$$\begin{aligned} & (2 \times 200 + 596) \text{ divided by } (3 + 0.32) \\ & = 996 \text{ divided by } 3.32 \\ & = \$300. \end{aligned}$$

Alternatively, where jewellers manufacture goods and sell them by retail, but do not sell significant quantities of similar goods to arm's length retailers in Australia in comparable circumstances, the Tax Office has previously approved the following taxable values:

(i) where the manufacturer directly imports cut or uncut gems used to manufacture jewellery:

- tax-exclusive cost of the gems increased by 10% plus
- cost of the other materials increased by 25% plus
- cost of wages (including cutting) increased by 25% plus
- 10% of the sum of the above amounts

(ii) where the manufacturer locally purchases cut or uncut gems used to manufacture jewellery:

- tax-exclusive cost of the gems plus
- cost of the other materials increased by 25% plus
- cost of wages (including cutting) increased by 25% plus
- 10% of the sum of the above amounts

These industry rulings previously approved by the Tax Office are now published in accordance with paragraph 9.7 of **Taxation Ruling SST 6**, Sales Tax: taxable value. These taxable values will remain in force until and unless they are renegotiated or withdrawn (withdrawal of an industry ruling will be on not less than three months' notice).

Note: You can adopt **either** formulae (manufacturing cost plus one third or $[2C + RSP] \text{ over } [3 + R]$) for calculating taxable value to all your transactions for a class of goods, e.g. manufactured jewellery, **or** you can adopt the alternative taxable values based on the two Tax Office approved industry rulings mentioned above. However, you cannot use both methods for your manufactured jewellery, depending on the circumstances of the particular transaction.

Taxable value - where goods are manufactured from materials supplied by customers

If you manufacture goods using raw materials supplied by customers such as retailers or the general public, the taxable value is the amount charged to the customer **plus** the *notional wholesale purchase price* of any *always exempt* goods supplied by your customer. *Always exempt* goods comprise, for example, unprocessed precious stones in the rough.

The *notional wholesale purchase price* is the price (excluding sales tax) for which you could reasonably have been expected to buy the goods by wholesale. The price paid by your customer for the materials or the landed cost of imported materials is satisfactory. This price must be added to the amount of your charge to calculate the tax. You should try to get this price in writing from your customer, but an oral quote of the price will be satisfactory.

Example: You manufacture a necklace using an uncut precious gemstone supplied by a retailer which cost \$200. The amount charged to the retailer for making up the necklace is \$100 (before tax). The taxable value of the made-up necklace is \$300, being the sum of the amount charged to the customer (\$100) plus the notional wholesale purchase price of the gemstone (\$200). The tax payable on the made-up necklace is 32% of \$300 which is \$96.

If your customer is unable or unwilling to provide you with the actual purchase price of the exempt materials supplied, or you believe the stated price to be unreasonable, you should make an estimate of your customer's purchase price based on your general knowledge of prices of comparable goods in the industry. Alternatively, you may use the price for which you can purchase comparable goods at arm's length.

You do **not** include in the taxable value calculation, the value of any taxable, tax paid or second-hand materials supplied by your customer, e.g. a customer's gemstone from worn out jewellery.

Taxable value - applying goods to your own use

If you've manufactured jewellery and applied it to your own use in circumstances where an exemption doesn't apply, the taxable value is the *notional wholesale selling price* of the goods. Where you sell similar goods by wholesale or retail, you can calculate the taxable value using one of the methods described earlier.

If you buy in goods free of sales tax by quoting your sales tax registration number and then apply them to your own use in circumstances where an exemption doesn't apply, the taxable value is the purchase price of the goods. If the goods were imported by you under quote, the taxable value is 120% of (customs value + customs duty).

Taxable value - goods acquired tax-free under quotation and used in repairs

The taxable value of goods acquired tax-free under quotation and used in repairs is the purchase price of the goods, or if the goods were imported tax-free directly, 120% of (customs value + customs duty).

Where a retail manufacturing jeweller encounters difficulties in ascertaining the value of tax free stock used in repairs, e.g. silver solder and other consumables, the Tax Office has previously approved an arbitrary taxable value of 10% of the total repair charge as being a reasonable compliance with the law.

However, this arbitrary taxable value does not apply to gems used in repair work. Sales tax on gems taken from tax free stock for use in repairs will generally be subject to tax at the Schedule 5 rate, currently 32%, of their purchase price for gems purchased locally or, if the gems were imported tax-free directly, 120% of (customs value + customs duty).

This industry ruling previously approved by the Tax Office is now published in accordance with paragraph 9.7 of **Taxation Ruling SST 6**, Sales Tax: taxable value. This taxable value will remain in force until and unless it is renegotiated or withdrawn (withdrawal of an industry ruling will be on not less than three months' notice).

What about sales between associated wholesale and retail jewellers?

Some retail jewellers interpose a wholesale entity between themselves and their normal arm's length suppliers in order to defer the time at which tax is payable and for other reasons. The wholesale entity then sells the goods exclusively to the non-arm's length retail jeweller.

For the purposes of the sales tax law, non-arm's length or interposed wholesalers are no different from any other. They are required to pay tax on an amount for which the goods could reasonably be expected to have been sold under an arm's length transaction. The fact that the goods were purchased at an arm's length price is not material to the calculation of this taxable value.

The Tax Office has previously approved an acceptable taxable value that may be applied to non-arm's length dealings between wholesale and retail jewellers. This taxable value that applies where goods are purchased from an Australian manufacturer or a wholesaler, whether a wholesaler of locally produced or imported goods, is:

- **purchase price of the goods increased by 6%**

Where goods are imported directly by the interposed wholesaler and are sold exclusively to the non-arm's length retail jeweller, it is acceptable if the taxable value of the transaction is not less than:

- **120% of (customs value + customs duty)**

In cases where goods are manufactured by the interposed wholesaler and are sold exclusively to the non-arm's length retail jeweller, the acceptable taxable values are either of those values mentioned under the heading 'What if I only sell by retail?' on pages 8 & 9.

These industry rulings previously approved by the Tax Office are now published in accordance with paragraph 9.7 of **Taxation Ruling SST 6**, Sales Tax: taxable value. These taxable values will remain in force until and unless they are renegotiated or withdrawn (withdrawal of an industry ruling will be on not less than three months' notice).

How do I pay sales tax to the Tax Office?

If you're liable for sales tax, you must calculate the tax payable and send a return in the approved form with full payment to your local Tax Office. You will receive a booklet of return forms each year if you are required to lodge either monthly or quarterly remittances on a regular basis. In other cases, return forms are available from your local Tax Office.

Can I pay my sales tax quarterly?

If you had an annual sales tax liability of less than the quarterly remitter threshold and you have no sales tax payments outstanding, you can lodge returns and pay sales tax on a quarterly basis. The relevant quarters are the three months ending 31 October, 31 January, 30 April and 31 July.

The current quarterly remitter threshold may be obtained by contacting your local Tax Office on **13 28 66** for the cost of a local call.

When is the return and payment due?

The return with full payment is due 21 days after the end of the month or quarter in which the transaction(s) took place. Payment may be made at any branch of the Tax Office.

Can I pay through Australia Post?

You can make your payments at any branch or agency of Australia Post. However, you must use the pre-printed returns from your *Sales Tax Return Book* and pay the total of the amount due. Payment will only be accepted where the amount paid matches exactly the amount of liability shown on the sales tax return. Otherwise, the amount must be paid to the Tax Office.

Do you need more information?

If you have any questions or need more information about how the sales tax laws apply to you, please contact your local Tax Office:

- **by phone** - on our national inquiry number **13 28 66**. You can ring this number from anywhere in Australia for the cost of a local call; or
- **in person** - by visiting the inquiry counter at your nearest Tax Office. Tax ____ Office addresses are listed in TaxPack, as well as in the White Pages telephone directory.¹

¹Produced by the Withholding and Indirect Taxes Program of the Australian Taxation Office.