

STB 16 - The Sign Industry

Sales Tax Bulletin

Number 16 The Sign Industry

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Australian
Taxation
Office



Withholding and Indirect Taxes

About this bulletin

This bulletin explains how the sales tax laws apply to people in the sign industry. It gives details of the sales tax exemptions which are available and the sales tax treatment of the main types of signs.

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 the bulletin, and is current as at 1 May 1997.

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

How does sales tax affect me?

If you're in business as a sign-writer, 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 sign-writer 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?

Sign-writers may choose to register where they:

- manufacture signs;
- sell signs by wholesale, e.g., a sale made to people who will resell the signs such as retailers or other sign-writers;
- sell signs through indirect marketing arrangements, e.g., a sale of signs not of your own manufacture by retail, such as through commission agents; or
- sell goods to people who will use them as raw materials in the manufacture of other goods.

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, you will also need to refer to the *Proof of Identity Documents Information Sheet* (also available from your local Tax Office) and provide the appropriate form of identification. You'll need to 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:

I hereby quote Sales Tax Registration Number _____
Name of person authorised to quote _____
Signature of person authorised to quote _____
Date _____

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:

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.
Name of person authorised to quote _____
Signature of person authorised to quote _____
Date _____
Note - The maximum period that can be covered by a periodic quotation is one year.

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.

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 free copy of Bulletin No. 18 *Sales Tax - 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., cutting machines or brushes used *mainly* in the production of letters or signs; and/or
- machinery, apparatus, tools etc. used *mainly* in an activity which directly supports the manufacturing activity, e.g., an air conditioner used *mainly* to control the temperature in an area where you carry out your manufacturing activity.

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

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, unless you intend to sell those goods by wholesale. 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 signs?

All signs are taxable at the Schedule 4 rate, currently 22% unless:

- they are exempt signs (see *What signs are exempt from sales tax?* below); or
- the user of the sign is able to claim exemption (see *Who can claim exemption from sales tax?* on page 6).

What signs are exempt from sales tax?

The following types of signs are exempt from sales tax:

- builders hardware signs;
- safety signs used in industry; and
- certain honour boards and memorial boards.

These three types of signs are discussed below in more detail.

Builders hardware signs

Signs are exempt as builders hardware if they are of a kind that are used as raw materials in the construction, or repair of, buildings or other fixtures.

This means that for a sign to be exempt as builders hardware it must be of the type that becomes an integral part of the fabric of the building (or other fixture) and not part of the fit

out or equipping of that building. The sign must also have a sufficient association with, and be commonly for use by, the building industry.

Electrical signs cannot qualify as builders hardware signs because of an exclusion from exemption for electrical fittings in the sales tax law.

Examples of builders hardware signs

- (a) **Statutory signs** — These are permanently attached signs of the type that are required by law to be installed in a building before it can be occupied. Common examples are ‘Electrical Switchboard’, ‘Fire Exit’, ‘Fire Hydrant’, ‘Cabling’, ‘Keep Clear At All Times’, ‘Boiler Room’, ‘Pump Room’ and ‘Evacuation Procedure’.
- (b) **Standard direction and instruction signs** — These are permanently attached non-personalised signs of the type that are installed in buildings or to other fixtures (e.g., steel posts/concrete pylons cemented in the ground). These signs do not carry any personalised or customised information but have a standard or general application. Common examples are ‘No Smoking’, ‘First Aid’, ‘Exit’, ‘Car Park’ and pictorial signs such as male/female symbols for toilets, parking and roadside traffic control signs. In some cases these could also be ‘statutory signs’.

Safety signs

Signs are exempt as safety signs if they are of a kind used in industrial operations to protect people engaged in those operations. This means that the sign needs to be used in the course of employment to protect workers and may be movable, it doesn’t have to be fixed. Signs that are ordinarily used to protect the general public from danger **do not** qualify as safety signs. Illuminated ‘Exit’ signs are not considered to be safety signs and are taxable.

Examples of safety signs

- (a) Signs listed in Australian Standard AS 1319-1994 titled *Safety signs for the occupational environment* are exempt from sales tax when they are used in the course of employment to protect workers. Examples of signs listed in this standard are ‘Danger — Live Wires’, ‘Caution Slippery Floor’ and ‘Emergency Exit’. A range of pictorial safety signs are also listed in the standard which convey meanings such as ‘Caution, risk of fire’, ‘Caution, beware of opening door’, ‘Eye protection must be worn’ and ‘Emergency eye wash’.
- (b) Warning and danger signs attached to motor vehicles that warn drivers, service personnel and emergency services of the nature of the contents being carried, e.g., ‘Explosive’, ‘Flammable Liquid’, ‘Poison’ and ‘Radioactive’.
- (c) *Hazchem* signs, designed to warn employees, service personnel and emergency services of dangerous chemicals on property or vehicles.

Honour boards and memorial boards

Signs that satisfy one of the following descriptions are exempt from sales tax:

- an honour board or honour roll that contains the names of people who have served as members of the defence force of any country;
- a memorial board or memorial tablet in memory of deceased people; or
- a plaque or other monument erected by a person in a public place in commemoration of an historical event.

In relation to the third point above, the following definitions are given:

Public place means a place that is open to, and/or readily accessible by, all members of the public. Whilst this may include the foyer of a building, it would not include areas where access is only by organised tour.

Historical event means any event that relates to, or is concerned with, an occurrence or happening.

Who can claim exemption from sales tax?

Organisations who are entitled to claim exemption from sales tax on signs that are for their own use include:

- non-profit schools (exemption Item 109);
- Commonwealth and State Government Departments (exemption Item 126);
- certain State and Territory Bodies (exemption Item 126A);
- Local Government Bodies including municipal, shire and district councils (exemption Item 127);
- non-profit hospitals (exemption Item 140(b)); and
- public benevolent institutions (exemption Item 140(c)).

Examples of taxable signs

The following types of signs are taxable at the Schedule 4 rate, currently 22% unless the user of the sign can claim exemption (see *Who can claim exemption from sales tax?* above):

- signs (whether movable or of the type attached to a building or other fixture) that are customised or personalised in any way, e.g., to identify a particular business, building or person;
- address signs and directory boards;
- signs which identify a room in a building such as 'Boardroom', or 'Meeting room' (see 'Examples of builders hardware signs' on page 5 as some signs which identify a room in a building are statutory signs);
- signs which advertise a business or product or contain any advertising features;
- signs of a temporary or movable nature, e.g., real estate agent boards or builders boards;
- individual letters including those made of metal, wood, plastic, or adhesive backed vinyl. These letters remain taxable even if individually attached directly to a building or other fixture to make up a single word or group of words which comprise an exempt sign (such as a statutory sign);
- signs made of paper or polystyrene;
- electrical, fluorescent and illuminated signs (including illuminated 'Exit' signs); and
- safety signs attached to motor vehicles where the signs are directed at the general public, e.g. 'Long Load', 'Do Not Overtake Turning Vehicle' and 'Give Way'.

How do I calculate sales tax payable on my transactions?

When a taxable sign is 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 are discussed below.

Taxable value — sign-writers who sell 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 a sign 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 — sign-writers who sell 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 comparable circumstances.

Example: You sell signs 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 (ie 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 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 and I don't sell similar goods by wholesale?

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 sign-writers who sell goods by retail but do not sell significant quantities of similar goods by wholesale 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.

Included in manufacturing cost are the costs involved in design and preparation of a sign such as artwork. The exemption for artwork for printed matter does not apply to signs.

Example: You sell a sign by retail for \$80 (before tax). If the manufacturing cost of the goods is \$50, the taxable value is \$60, calculated as follows:

$$50 + 1/3 \text{ of } (80 - 50) = 50 + 10 = 60.$$

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 25% (ie \$80 - 25% = \$60).

Some sign-writers 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 22% would be \$93.20 (\$80 plus \$13.20 being 22% of notional wholesale price of \$60). Applying the formula produces the same taxable value of \$60 as follows:

$$\begin{aligned} & (2 \times 50 + 93.20) \text{ divided by } (3 + 0.22) \\ & = 193.20 \text{ divided by } 3.22 \\ & = \$60. \end{aligned}$$

Alternatively, in the case of sign-writers selling by retail (and where significant quantities of similar goods are not sold by wholesale in comparable circumstances), the Tax Office has also approved a taxable value of retail selling price (excluding sales tax) less 10%. The following example shows how to calculate sales tax using this method.

Retail selling price (excluding tax)	\$100.00
Less 10%	10.00
Taxable value	\$90.00
Sales tax @ 22%	\$19.80
Amount charged to customer	\$119.80

Note: (1) You can adopt **either** formulae for calculating taxable value based on manufacturing cost above to **all** your transactions for a class of goods, e.g., manufactured signs, **or** you can adopt the alternative taxable value based on retail selling price (excluding sales tax) less 10% for manufactured signs. However, you cannot use both methods for your manufactured signs, depending on the circumstances of the particular transaction.

(2) You can only use the retail selling price less 10% taxable value provided this amount is not less than the manufacturing cost of the goods plus a fair wholesale profit.

Taxable value - applying goods to your own use

If you've manufactured a sign 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 above.

If you buy in a sign free of sales tax by quoting your sales tax registration number and then apply it to your own use in circumstances where an exemption doesn't apply, the taxable value is the purchase price of the goods.

Repair of signs

Where a sign is repaired or restored to its original state and no change is made to the colour or wording of the sign, then this work is not regarded as manufacture for sale tax purposes. This means that sales tax is only payable on any taxable materials used.

Alteration of signs

Where work on a sign results in the alteration of its colour, wording or logo then this is regarded as manufacture (a common example of this is real estate 'For Sale/Auction' boards discussed below). In these cases, where the sign is supplied by the customer for alteration, sales tax is payable at the Schedule 4 rate, currently 22% on the amount charged to the customer for the work.

Leasing of 'For Sale/Auction' boards

Where such signs are completely painted out and new details are added, that is regarded as manufacture and the sign writer is liable for sales tax. Where the name and address of the real estate agent is retained, but the details of the property are painted out and new details added in, this is also regarded as manufacture.

Where such signs are leased to, for instance, a real estate agent, sales tax may be paid at the Schedule 4 rate, currently 22% on the amount of the leasing charge.

Sign-writing directly onto buildings, vehicles etc.

Where traditional sign-writing is done directly onto buildings or other fixtures or onto, say, motor vehicles, boats or awning blinds, manufacture of a separate sign is not involved and sales tax is payable on the taxable materials used to do the work.

However, where you manufacture individual letters and attach them directly onto, say, buildings or vehicles, you are liable to account for sales tax on the *notional wholesale selling price* of those letters.

Installation costs

The cost of installing a sign is not subject to sales tax.

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 registered. If you are not registered, 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 \$56,441 during the financial year 1995/96 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.

If your sales tax liability during 1995/96 was more than \$56,441 you must lodge returns and pay sales tax each month.

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 Guide* 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 enquiry 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 enquiry counter at your nearest Tax Office. Tax Office addresses are listed in TaxPack, as well as in your White Pages telephone directory.¹

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