STB 27 - Taxable Value for Non-manufacturers

Sales Tax Bulletin

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Taxable Value for Non-manufacturers

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About this bulletin

This bulletin gives non-manufacturers, such as wholesalers and retailers, some guidance in calculating the taxable value of goods where they need to account for sales tax. 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.

The bulletin is based on **Taxation Ruling SST 6** Sales Tax: taxable value, a copy of which is available:

- from your local Tax Office; and
- on the Internet at http://www.ato.gov.au

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. If you are an indirect marketer or direct seller, you should refer to Sales Tax Bulletin Number 29 titled *Taxable Value for Indirect Marketers and Direct Sellers.*

Overview

Under the sales tax law, the amount of tax payable on assessable goods is determined by multiplying what is known as the taxable value of the goods by the tax rate applicable to the goods.

Arm’s length rule

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 : non-manufacturers 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*.

Example: You sell goods 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.*

If you need information on how the taxable values of goods you sell are affected by:

- freight and insurance costs
- finance charges
- warranty charges
- trade incentive payments

please call your local Tax Office on **13 28 66** (local call cost).

Taxable value: non-manufacturers who sell by retail

A retail sale is a sale to an end user. As a general rule, you do not have to charge tax on retail sales if you have already paid tax on the goods. Where goods have been acquired under quotation of your sales tax registration number or an exemption declaration and then sold by retail where an exemption doesn’t apply, the taxable value is usually 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*.

If you pay royalties in relation to taxable retail sales, you should contact the Tax Office on **13 28 66** (local call cost) for more information.

The taxable value is easy to determine 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 simple methods of arriving at this value.

If you 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; or

Example: You sell goods 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 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.

If you only sell by retail

The Tax Office would expect that you would normally sell by wholesale at a price reflecting the sum of into store cost, wholesale selling expenses and a fair wholesale profit.

A simplified formula (known as a Safe Harbour) for finding this figure is available for non-manufacturers 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 using the lesser of:

1. *into store cost* plus one third of the difference between that amount and the retail selling price (excluding tax) of the goods; or

2. *into store cost* plus 10%. In respect of goods imported by you, this must be not less than 120% of (customs value + customs duty).

A Safe Harbour is a statement of how to calculate taxable value that the Tax Office accepts as completely discharging a taxpayer's liability.

Into store cost means the purchase price of the goods plus duties, inwards transport costs to the non-manufacturer's premises (or as it directs), and any other directly attributable costs of acquisition.

Example: You sell Australian made goods by retail for $145 (before tax). If the into store cost of the goods is $100, the taxable value of the goods will be $110 (ie $100 + 10% using method 2. above).

If you had used method 1. above, the taxable value would be $115 (ie $100 plus one third of $145-100). You are entitled to use the taxable value which gives you the best result, which in this case, is method 2.

Taxable value - applying goods to own use (AOU)

In some cases you may purchase goods under quotation of your sales tax registration number or an exemption declaration and AOU them in circumstances where an exemption doesn't apply. This would include using goods yourself, giving goods away and using goods in repair work. It does not include selling the goods.

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).

What if I have a current private ruling from the Tax Office?

Some private rulings may conflict with the principles in this bulletin and with **Taxation Ruling SST 6** Sales Tax: taxable value. These private rulings lapsed on 1 October 1996.

Private rulings that issued before 30 June 1992 lapsed on 1 July 1997. All other private rulings will lapse 5 years from the date they were issued by 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]

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