Basic Overview of GST system.

It is recommended that students access and use the *GUIDE to GST* available from the ATO or from the Tax Reform Website at http://www.taxreform.ato.gov.au. It contains a comprehensive guide to the GST system.

These notes are an alternative only if the Tax Reform *Guide to GST* is not available.
**Overview - GST System**

- Started 1 July, 2000.
- Rate is 10%.
- In general, you charge GST on what you sell.
- In general, you get credit for GST paid.
- You send the net amount to the ATO.
- The consumer ultimately bears the GST.

**GST SUPPLIES**

There are three types of GST supplies: (And taxable importations)

- taxable supplies and taxable importations;
- GST-free supplies; and
- input taxed supplies.

**TAXABLE SUPPLIES**

You make a taxable supply if:

- you make a supply for consideration;
- the supply is made in the course or furtherance of an enterprise that you carry on;
- the supply is connected with Australia; and you are registered.

Some examples of taxable supplies are:

- selling A4 paper
- carpet cleaning.

**GST-FREE**

- No GST is charged on the sale.
- Entities producing GST-free supplies will be able to claim GST credits on their inputs.

Some examples of GST-free goods and services are:

- **exports**: must be physically exported outside Australia
- **tourism**: international air and sea travel
- **Religious services**: integral to the practice of the religion eg weddings, bar mitzvahs.

**INPUT TAXED SUPPLIES**

- No GST is payable on supply.
- Pay GST on inputs.
- No credit allowed for GST included in the price of the things acquired to make the supply.

**CATEGORIES OF INPUT TAXED SUPPLIES**

- Financial supplies e.g. bank loans;
- Residential rent;
- Residential premises e.g. premises but not new;
- Precious metals; supply of gold bullion but not jewellery; and
- School tuckshops and canteens.

**GST REGISTRATION - WHY SHOULD YOU REGISTER?**

In the GST system, only registered entities can:

- collect GST
- claim Input Tax Credits.

**MUST YOU REGISTER?**

- An entity may be registered for GST if it is carrying on an enterprise.
- An entity can carry on more than one enterprise.
AN ENTITY
An entity is defined to mean:
- a natural person
- company, incorporated association or club
- government, council, government authority
- a partnership
- a trust
- a superannuation fund.

AN ENTERPRISE
- An enterprise includes:
  - a business;
  - in the form of an adventure or concern in the nature of trade
  - profession;
  - lease;
  - certain activities of charitable institutions;
  - certain activities of religious institutions;
  - certain activities of government corporations; by gift deductible funds, authorities or institutions.

Does not include activities done:
- as an employee (PAYE); or
- as a private recreational pursuit or hobby; or
- an activity or series of activities undertaken by an individual in a position as a local government member; or
- by individuals (or partnerships of individuals) where there is no reasonable expectation of profit or gain.

SINGLE ENTITY - MULTIPLE ENTERPRISES
Jack O'Trades operates several shops:

<table>
<thead>
<tr>
<th>SHOP</th>
<th>TURNOVER</th>
</tr>
</thead>
<tbody>
<tr>
<td>bakery</td>
<td>$10 000</td>
</tr>
<tr>
<td>newsagency</td>
<td>$15 000</td>
</tr>
<tr>
<td>contract cleaner</td>
<td>$30 000</td>
</tr>
</tbody>
</table>

ANNUAL TURNOVER INCLUDES
The sum total of all supplies made by all the enterprises operated by the entity, exclusive of GST, made in relevant 12 months period.

ANNUAL TURNOVER DOES NOT INCLUDE
- Input taxed supplies (as they are not taxable supplies);
- Supplies that are not made for consideration (normally money);
- Supplies that are not made in relation to your enterprise.

PROJECTED ANNUAL TURNOVER
Does not include:
- transfer of capital assets
- transfers associated with closing down the business or permanently reducing its size.

ANNUAL TURNOVER - TIME PERIOD
At any one time, this “12 month” period is determined by the current month plus the previous 11 months’ turnover or the current month plus the next projected 11 months’ turnover.

IF YOU DO NOT REGISTER
You are not registered for GST, you:
- do not have to charge GST on your supplies or services;
Basic GST Overview

- will not be able to claim the GST paid on your business inputs.
- You do not have to charge GST on your supplies or services;
- You will not be able to claim the GST paid on your business inputs;
The Commissioner must register you if the Commissioner is satisfied that you are required to be registered;
The Commissioner can back date the registration.

**HOW DO YOU REGISTER?**
- You must use the Tax Office form.
- Apply within 21 days after becoming required to be registered, that is when you cross the annual turnover thresholds, as discussed above.
- There is no charge.

**CAN YOUR GST REGISTRATION BE CANCELLED?**
You can apply for deregistration when:
- your annual turnover drops below $50000;
- you cease to carry on an enterprise, e.g. sell your business, become bankrupt;
You must have been registered for at least 12 months.

The Commissioner must deregister you if the Commissioner is satisfied that you are not carrying on an enterprise and not likely to do so for at least 12 months.

**KEEPING GST RECORDS**
Being registered for GST, you must now keep GST records.
Calculations must be made each tax period.

**TAX PERIODS**
- Tax Periods are the reporting periods for the GST.
- The tax periods can be either quarterly, or monthly (or concluding).

**QUARTERLY TAX PERIODS**
- Most businesses will only need to submit their GST returns every 3 months.
- For the July-August-September quarter, the “GST return” (Business Activity Statement) and payment is required by 21 October.
- Other quarterly “GST returns” (Business Activity Statement) and payments are due by 21 January, 21 April and by 21 July.
- Note: A BAS may also be required for other payments (PAYG withholding) on a monthly basis.

**ADVANTAGES OF QUARTERLY TAX PERIODS**
- Less compliance costs.
- Cash flow advantage of up to 113 days. \( [(31 + 30 + 31) + 21] \)

**MONTHLY TAX PERIODS**
You must use monthly tax periods if:
- your annual turnover is $20 million or more;
- you will carrying on an enterprise in Australia for less than 3 months;
- your income year is not the same as the financial year;
- you have a history of non-compliance with tax obligations.
You may elect to use monthly tax periods.

**YOUR FIRST MONTHLY TAX PERIOD**
The “GST Return” (Business Activity Statement) and payment is required within 21 days of the end of the month of registration.
ADVANTAGES OF MONTHLY TAX PERIODS
You will get your GST refunds earlier.
There could be a cash flow advantage of up to 52 days (31+21).
This would be suitable for hospitals and exporters, as these will be *GST-Free*.

VARIATION OF TAX PERIOD
The tax periods are able to be varied by up to seven days, either backwards or forwards if this is consistent with the business’ normal accounting procedures.
The payment date does not change.
EXAMPLE
The first tax period is from 1.7.2000 to 30.9.2000. But 30 September, 2000 is a Saturday.

Dave from his newsagency writes up the firm’s cashbook every Friday. Dave can end his tax period on Friday 29 September 2000 and account for GST for this period. He will still have to lodge his GST Return (Business Activity Statement) by the normal date (21.10.2000). Dave can vary his tax period by 7 days, either forward or backwards. Dave’s next tax period will start on 30 September 2000 and end on Friday 29 December 2000.

CONCLUDING TAX PERIOD
An entity has a concluding tax period:
- if it ceases to carry on an enterprise;
- in the event of death, bankruptcy, liquidation or receivership.
The concluding tax period ceases on the day before the above events.

ACCOUNTING FOR GST

GST can be accounted for on either a cash or accruals basis.

CASH BASIS
- The cash accounting threshold is $500,000.
- If your annual turnover does not exceed $500,000, you can use either the cash basis or the accruals basis to account for GST.
- Even if you are over $500,000, you can still apply to use the cash basis. You must be able to satisfy the Commissioner that the cash basis is appropriate.

EXAMPLE
Doctor Angela Angina set up her medical practice, Implants Galore. Her annual turnover is $700,000 (greater than $500,000 threshold). The medical practice uses a cash basis system for both accounting and tax. Therefore, Dr Angina should use the cash basis for GST purpose to save time and money. However she must apply to the Commissioner of Taxation to do this.

THE GST RULES - CASH BASIS
GST is attributable to the tax period in which you receive payment for your taxable supplies, e.g. sales.

You claim Input Tax Credits in the tax period in which you pay for your purchases.
INPUT TAX CREDITS
- An input tax credit is an amount allowed to offset the GST included in the price of an acquisition if it was acquired for use in an enterprise.
- Input tax credits are only available for creditable acquisitions.

Example:
You hold a tax invoice for a lathe;
The total cost of the lathe is $2244;
Therefore you full input tax credit = 1/11 x $2244 = $204.

CREDITABLE ACQUISITIONS
An entity makes a creditable acquisition if all the following conditions are met:
- the acquisition is solely for a creditable purpose;
- the supply of the thing to be acquired was a taxable supply to the entity;
- the entity provides or is liable to provide the consideration; and
- the entity is registered or required to be registered.

ACCRUALS BASIS
If your annual turnover is greater than $500,000, you must use the accruals basis to account for GST, unless permission received from the Commissioner to use the cash basis.

THE GST RULES FOR ACCRUALS
The GST rules for this method are that you attribute all of the GST on a taxable supply to the tax period in which the earlier applies:
you receive consideration (usually money); or
when a tax invoice relating to the supply is issued.

YOUR ACCOUNTING SYSTEM SHOULD ENABLE:
Identification and isolation of both GST payable and input tax credits.
Attribution of GST payable and input tax credits to the relevant tax period.
Recognition of the GST status of supplies made or received.
Adjustments of GST payable and input tax credits respectively in later tax periods.

TAX INVOICE - PURPOSE
Unless you have a tax invoice, you cannot claim a tax credit.
This only applies for taxable supplies of $50 or more, excluding GST.
The retention period is 5 years.

ISSUING TAX INVOICES
Suppliers usually issue tax invoices.
You do not have to issue a tax invoice if you are not requested by the recipient of the supply.
You must pay GST on all your taxable supplies whether or not you have issued tax invoices.
If you are requested to issue a tax invoice, you must do so within 28 days of the request.

TAXABLE SUPPLIES - LESS THAN $50 GST EXCLUSIVE
A tax invoice is not compulsory.
Other supporting documentation will be needed to claim the input tax credit
- records as to what was purchased
- supplier
- time of purchase
- consideration.

CALCULATION OF GST PAYABLE/ REFUNDABLE
The net amount has to worked out for each tax period.
This net amount can be increased or decreased by adjustments.

**EXAMPLE:**
Example: A plumber charges a consumer $550 for work done on a new downstairs bathroom in September. The plumber will have to include 1/11 of $550 = $50 in her July-August-September quarterly Return. The customer then complains about being overcharged. So the plumber gives him a refund of $55 in October by issuing an adjustment note. The plumber has to wait for the October-November-December quarterly GST Return (Business Activity Statement) to claim the GST adjustment of $5 i.e. 1/11 of $55.

In working out your net GST, you must have an adjustment note before any claims can be made.

**ADJUSTMENTS**

In calculating the net GST payable, adjustments may have to be made. For example, if you:
- cancel a supply;
- change the consideration (price);
- change business/private use. (creditable purpose);
- bad debts (accruals basis only).

**ADJUSTMENT SUBSTANTIATION**

To substantiate an adjustment, an *adjustment note* (like a credit note) must be issued.

**ADJUSTMENT NOTES**

These must be issued within 28 days of their being requested or the supplier becoming aware of adjustment event. These do not have to be issued if the value of the supply is less than $50 exclusive of GST.

*An adjustment note* is like an amended tax invoice. Details shown on adjustment notes will be similar to those details on tax invoices.

GST obligations include the completion and lodgement of a BUSINESS ACTIVITY STATEMENT (BAS). This is covered in the Review compliance section.