

Goods and Services Tax (GST) Knowledge

What is GST?

The Goods & Services Tax (GST) is formally and intentionally a consumption tax, a tax on the final consumption of a good or service. It is created to be a tax on the ultimate end consumer and not a tax on business.

However every transaction between businesses or from a business to a consumer has to be considered for GST. The final amount of tax is collected at every transaction along the way.

Every Business acts as a collection agent for the government in relation to GST. From the initial raw supply of the base item through to the final sale and consumption of the end product GST may have been paid and refunded many times between the respective businesses and the tax office.

Business must consider whether the right paperwork has been created (Tax Invoices), whether GST applies (to charge or not to charge GST), whether the transaction has to be reported (the form), whether GST can be refunded (claiming credits) and whether to get help.

SAMPLE - There's the law

Key GST related obligations of the business are

- Registering for an ABN & possibly GST
- Producing valid Tax Invoices
- Receiving valid Tax Invoices
- Charging GST on the right items
- Paying GST
- Claiming only allowed GST (Input Tax Credits)

This example is where GST is collected at every step.

| | | | |
|---------------------|--|---|----------------------------------|
| Farmer | Sells \$100 worth Total sale \$110 | GST =\$10 | |
| Wholesaler | Purchases \$110 Sells \$150 worth Total sale \$165 | GST (\$10) GST \$15 ----- \$ 5 | TAX MAN \$ 10 5 10 8 |
| Manufacturer | Purchases \$165 Sells \$250 worth Total sale \$275 | GST (\$15) GST \$25 ----- \$ 10 | ----- \$ 33 |
| Retailer | Purchases \$275 Sells \$330 worth Total sale \$363 | GST (\$25) GST \$33 ----- \$ 8 | ----- 10% Of \$330 |
| Person | Pays \$363 | | |

Registering your Business?

>for GST

Every business (for profit, not for profit, school, hospital; everybody doing business) in Australia must register for GST when your actual or expected annual turnover exceeds \$75,000. If your organisation is a not-for-profit then the turnover threshold increases to \$150,000. Any business may choose to register below these amounts.

You may be registered with an ABN but not register for GST, however you cannot be registered for GST without an ABN.

You must be registered for GST in order to claim GST back from your purchases, in order to charge GST to your customers and therefore you must be registered for GST to issue Tax Invoices.

>The registration options

When registering for the various tax systems a number of decisions must be made:

- GST:
 - Cash reporting or Accrual reporting
 - Monthly or Quarterly reporting
- Instalment amount or calculated
- PAYG Withholding: Monthly or Quarterly reporting
- FBT: instalment paying or not
- PAYG Instalments: Amount, or rate or GDP method
- Does WET or Fuel Tax apply

None of these decisions affect the bookkeeping procedures, they do effect the way the BAS is completed and timing of when payments are made.

Depending on your role and responsibilities you should have an understanding of each of these registration details to ensure you are prepared to meet the reporting and payment obligations

>for an ABN

Every business in Australia must have an Australian Business Number (ABN).

Without an ABN your customers MUST deduct 46.5% from any payment to you as a tax withholding. (this withholding, which appears like a penalty, is really only a tax withholding that you claim as a credit on your tax return. 46.5% withheld and paid to the ATO is a fair size dent in any bodies cash flow hence registration is advisable)

Register at www.ABR.gov.au

You may have an ABN but choose not to register for GST.

Note: Hobbyists may enter business transactions without an ABN by providing an exemption statement to your customer. Hobbyists are not considered a business but may be involved in a business transaction, however because they are hobbyists the underlying transaction wont normally result

“The Tax Invoice”

>GST is Tax Invoice Centred

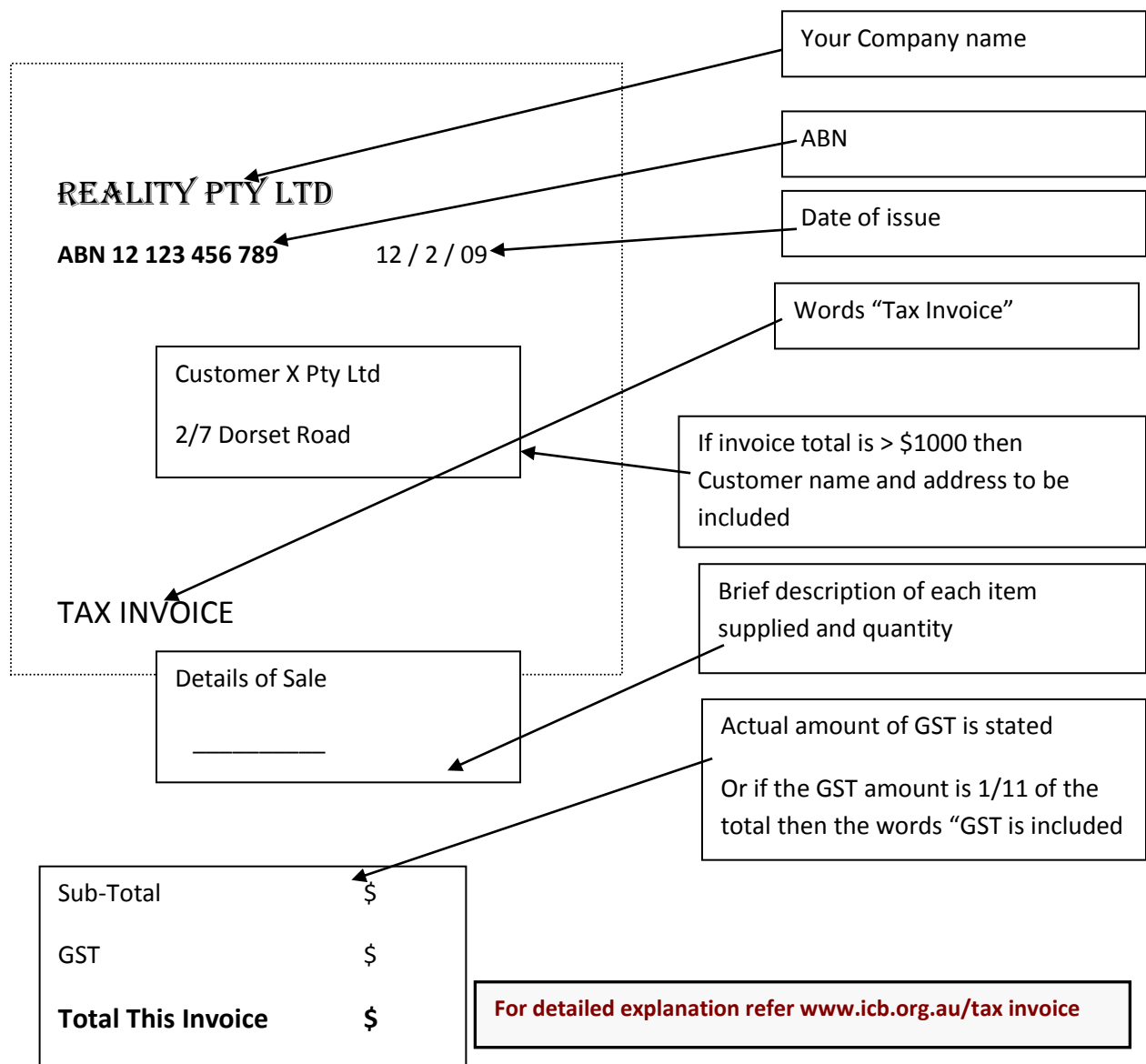
The essential paperwork that must exist for each and every business transaction to comply with your GST obligations is the TAX INVOICE.

A Tax Invoice must be issued for a sale!

A Tax Invoice must be obtained and kept for each purchase.

>What are tax invoices?

A valid tax invoice must contain each of the following



NOTE: There is NOT a standard format nor standard layout for the Tax Invoice. As long as your Tax Invoice contains the above items then it will be valid.

<Remember>

However there is a concept in law that the company name and Australian Company Number “ACN” must be shown on documents before the details of the contract or transaction so having your identifiable details at the top of the Tax Invoice format is advisable.

<Tip>

The ATO have created Voluntary Standards for layout of Tax invoices refer ATO form NAT11675)

>A Recurring Tax Invoice

A recurring invoice is permitted to exist for items that are the same on a number of regular occasions, for instance a monthly commercial rent invoice would include

| | | |
|--|--------|-------------|
| This Tax Invoice applies for the period commencing ##/##/## in relation to ***** agreements | | |
| Please retain for your records | | |
| CONTRACT DETAILS | | |
| Rental Agreement: | DETAIL | Start Date: |
| | | Finish Date |
| Payment Date each month: | 1st | |
| PAYMENTS DUE | | |
| Monthly Payment | \$ | |
| GST | \$ | |

>A Recipient Created Tax Invoice (RCTI)

An RCTI is created where an agreement exists between the supplier and the customer such that the customer (the “Recipient”) is able to “Create” the business record and provide a legal “tax invoice” to the supplier.

Typically where the customer is paying royalties or commission back to the supplier of the IP etc.

Refer to www.ato.gov.au for further guidance.

>An offer can turn into a Tax Invoice

Your marketing or advertising documents can act as a tax invoice as long as all the above information is contained in them “This document will be a tax invoice for GST when fully completed and you make a payment” GSTR 2000/17 pgr26B

>Generating a Tax Invoice – Who? How? When?

Who?

A GST registered entity is required to produce a Tax Invoice and provide it to their customers in relation to any sale. It may be produced by the business itself or by an agent acting on your behalf.

In order to claim back the GST Input Tax Credit you must be in possession of the Tax Invoice from your supplier.

How?

Tax invoices can be; hand written, computer generated, invoice books or cash register dockets. As long as the document contains the items required by law it will be a valid tax invoice. Tax invoices are therefore valid despite what method is used to generate them.

When?

Formally the answer is you must generate the Tax Invoice within 28 days of when your customer asks you for one.

In practice, business should generate a tax invoice as its standard invoice or business record at the time of the business transaction: Cash register receipts should be formatted to be the Tax Invoice, any invoice generated should be a Tax Invoice. You are not required to nor should you produce an invoice for the transaction and then produce a different document as a tax invoice for GST purposes.

A Bookkeepers role: If you are responsible for generating the Tax Invoices for the business then ensure your tax invoices meet the requirements – check with the businesses tax advisors or BAS Agent.

>You must have a valid tax invoice

You may not make a claim for the refund of any GST paid to a supplier unless you have in your possession a valid tax invoice from that supplier in relation to the amount of GST at the time of lodgement of the Activity Statement.

Your obligation is to possess the tax invoice and ensure it is valid (refer above re compulsory items that must be shown on the invoice).

In practice ensure you have received the Tax Invoices at the time of doing the transaction.

<Remember>

For accounting purposes you will have recorded the transaction in your books in the correct period of the transaction including recording the amount of GST to claim but unless you have the tax invoice at the time of lodging the BAS you are not permitted to include the claim on the BAS. You will need to defer that claim until the next BAS.

<Warning>

Some will argue that it is the responsibility of every business ie you to check the validity of the ABN of each and every business from whom you receive a Tax Invoice before you are allowed to claim back the GST. I do not believe this is a requirement under the law nor a practical business requirement. A valid tax invoice needs to have an ABN – the extra work required to validate each and every ABN by every business was not an intention of government at the time of implementation of the GST system

<A Bookkeepers Role>

Know how to recognise a valid tax invoice.

Valid tax invoices allow the GST to be claimed back.

Invalid tax invoices mean the GST is just part of the expenses and can't be claimed as a GST credit.

Charging GST on taxable supplies

Every business transaction must be considered and classified according to its GST status; classified so that GST is charged correctly but also that the transaction is reported correctly. The greatest obligation is to calculate, report and pay the correct amount of GST from the right transactions.

In GST speak a sale is termed either a Taxable Supply or a Non-Taxable Supply. Taxable supplies must have GST added to the sale value and the total collected from the customer. Any sale of a Good or Service must first be considered as "Taxable" and hence GST added unless the good or service is specifically identified as Non-Taxable.

Goods & Services classified by law as Non-Taxable or GST-Free and some transactions are deemed to be Non-Reportable' neither of these types of sale have an amount of GST attached but they have different reporting obligations. Each sale must therefore be classified not only according to how you wish to report it for accounting but now it must also be classified according to its GST and GST reporting status.

>Classifying your sales

- GST at 10%
- No GST but has to be reported
- No GST status & no GST reporting

>Who has to charge GST & Who doesn't

The basic rules:

- every business with more than \$75,000 turnover must register for GST
- every GST registered entity must charge GST on every Taxable Supply.

A business cannot deem itself as totally NOT subject to GST because of its industry or the typical thing it supplies.

Nor can a customer state that you shouldn't charge it GST because they aren't registered or because for instance they are a school or hospital.

You must charge GST if;

- the good or service is a taxable supply
- and
- it is not listed as GST Free or Input Taxed or
- it is not an Export to a non-resident.

>Free of a GST charge

GST Free (i.e. you don't charge GST) examples:

Education, Health services, basic food, sewerage, water, sale of a going-concern.

Input Taxed sales (i.e. you don't charge GST on these either)

Interest income or other financial supplies and residential rent

Exports (you don't charge GST to an overseas customer)

There are complex rules for complex situations but in short you don't charge GST when you provide goods or services to an overseas customer.

For certainty about your situation refer to ATO publication Nat 3014 or speak to your professional advisor.

As a seller it is your obligation to charge your customers GST when applicable, collect that money from them and pay that money onto the tax office (refer chapter 22)

<Bookkeeping role> When sales are being recorded, the amount of GST charged must be separated from the sale amount, allocated to GST control accounts. Eventually the total of GST charged or collected must be reported and paid to the ATO.

Your sales price for the Good or Service

Sample sales entry (GST Charged)

Db Cash Received \$110

Cr Sales \$100

Cr GST Collected \$ 10

Sample sales entry (GST Free or export)

Db Cash Received \$100

Cr Sales \$100

Sample entry for receipt of Residential Rent (Input Taxed sale)

Dr Cash Received \$100

Cr Sales (Rent received) \$100

Paying GST & Claiming it back

>As a purchaser of goods or services

GST is not normally an additional cost of your business operation. You are charged GST on top of your buy price, you pay it to the supplier on each and every transaction at the time of the transaction, but you are eligible to claim that same amount of GST as a credit back from the tax office.

It is a cash flow problem in that you may be paying your supplier the additional amount considerably before being able to claim the credit amount back from the tax office.

You will be charged GST by businesses on what you buy and as a GST registered business you may be eligible to claim that money back from the tax office on your Business Activity Statement (BAS) refer chapter 22.

<Bookkeeping role> your system of recording the transactions must separate the amount of GST paid so that you can report this amount enabling you to make the claim

Sample Purchase entry

| | | |
|----|-----------------|-------|
| Dr | Expense account | \$100 |
| Dr | GST Paid | \$ 10 |
| Cr | Cash Paid | \$110 |

YOU MAY NOT CLAIM THE GST BACK if....

If you incur the expense and it is in relation to an Input Taxed Sale i.e. your residential rental property or your earning of interest (or dividends) then the expense is deemed to be an Input Taxed Purchase: You are charged GST by your supplier, you must add it to the expenses and not claim the GST back. It becomes part of the cost of you being in business in a form

Sample entry for Input Taxed Purchases

The Tax Invoice may indicate that you have bought a Dishwasher for \$1000 + \$100GST. As an input taxed purchase the entry becomes

| | | |
|----|-----------|--------|
| Dr | Expenses | \$1100 |
| Cr | Cash Paid | \$1100 |

There is no separate accounting for the GST amount as you are not permitted to claim the GST credit. The GST forms part of the amount of your normal expenses.

>GST FREE purchases

If you are purchasing items that are GST Free sales e.g education or medical supplies and you have not been charged GST by the supplier then you have no GST amount to account for nor to claim back

Sample entry for GST Free purchase

| | | |
|----|-----------|--------|
| Dr | Expenses | \$1000 |
| Cr | Cash Paid | \$1000 |

Resources:

ATO GST BAS Booklet

ATO GST Exemptions