



GST *Action Planning*

SEMINAR SERIES AND SUPPORT

COMMUNITY ORGANISATIONS
COURSE THREE:
QUESTIONS AND ANSWERS

COURSE WORKBOOK
3

IMPORTANT INFORMATION CONCERNING THIS MATERIAL - PLEASE READ

This material is provided under the Commonwealth's GST Start-Up Assistance Programme, and is designed to provide general information on the GST and on business skills, practices and processes necessary to operate with the GST, focused on small and medium enterprises and the community and education sectors. Because business circumstances can vary greatly, the material is not designed to provide specific GST or business advice for particular circumstances. Also, because aspects of the GST are complex and detailed, the material is not designed to comprehensively cover all aspects of the GST as it applies small and medium enterprises and the community and education sectors. Further, the laws implementing GST, and rulings and decisions under those laws, may change.

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Prepared for the GST Start-Up Assistance Office by:

TEO Training Pty Limited

P O Box 610 Moonee Ponds Vic 3039, Telephone (03) 9375 7966 Fax (03) 9375 7488

Email: teotrainingpty1@optus.com.au

Contents

QUESTIONS AND ANSWER		Page
Objectives of the Course		6
Introduction		7
Question One	Register for GST	8
Question Two	Monthly or Quarterly	9
Question Three	Cash Basis	10
Question Four	Related Entities	10
Question Five	Multiple Activities	11
Question Six	Stationary	11
Question Seven	Additional Costs	12
Question Eight	Accrual Basis	12
Question Nine	Adjustments	13
Question Ten	Input tax credits	13
Question Eleven	Wages	14
Question Twelve	Non registered suppliers	14
Question Thirteen	Petty Cash	15
Question Fourteen	Refunds	15
Question Fifteen	Insurance	16
Question Sixteen	Maintenance Contracts	16
Question Seventeen	Motor Vehicle	17
Question Eighteen	Operational charges	17
Question Nineteen	Taxable Supplies	18
Question Twenty	Input taxed Supplies	18
Question Twenty-one	Staff board	19
Question Twenty-two	Category 8 Residents	19
Question Twenty-three	Staff Car-parks	20
Question Twenty-four	Extra service facilities	20
Question Twenty-five	Community services	21
Question Twenty-six	Scholarship	21
Question Twenty-seven	Donations	22
Question Twenty-eight	Government Grants	22
Question Twenty-nine	Privately Purchased Care	23

Cont.../

Question Thirty	Transition	23
Question Thirty-one	Retirement Villages	24
Question Thirty-two	Staff Uniforms	24
Question Thirty-three	Professional Development	25
Question Thirty-four	Provision of Tea and Coffee	25
Question Thirty-five	Fringe Benefits	26
Question Thirty-six	Professional Development Courses	26
Question Thirty-seven	Staff reimbursement	27
Question Thirty-eight	Second-hand shop	27
Question Thirty-nine	Deposits paid	28
Question Forty	Tax Exempt Status	28
Question Forty-one	Non-registered business	29
Question Forty-two	ABN not on invoice	29
Question Forty-three	Electronic filing of ABN	30

Objective of this course

The objective of this course is to clarify some issues that have arisen for community organisations regarding to the introduction of GST.

This has been done by

- Identifying questions that have asked by staff of non-profit organisations.
- Providing answers to these questions in a way that will assist the attendees appreciate the impact of GST on their organisation.

Introduction

The introduction of the Goods and Services Tax on 1 July 2000 represents a major change to the Australian Tax System.

The introduction of any change that impacts on the conduct of a community organisation is often an area of concern for those organisations. The introduction of GST is no exception. Many community organisations are very concerned about how the introduction of GST will affect them and their operations.

In many respects those concerns are without foundation. The introduction of GST should not cause problems for a well-managed community organisation. However many valid questions have been raised that need an answer. In this course we have attempted to address some of these. We do however stress that the ATO or your professional adviser is the most appropriate source of advice on GST.

This course is the final of a series of three.

- This introductory course discussed the basic principles of GST. It introduced GST terms and their implications in managing the GST process. It also considers GST registration options.
- The second course discussed GST systems. It was intended to assist community organisations put in place simple systems to make the management of GST a relatively straightforward process.
- Now with course three we look at GST management issues. It is designed to assist community organisations with decision making in the GST environment. The format is in question and answer to cover many basic issues that have been raised

This course material has been written in the knowledge that it is being made available to peak bodies who wish to provide GST material and GST training for their members.

The material may also be used by individuals and groups in the community sector who have a need for training material to assist them, and others, get an understanding of issues associated with the introduction of GST.

In making this material available for use, the authors are conscious that many of the GST terms used, and their particular meanings in a GST context are very important.

The material in this course will from time to time be updated as new questions are asked. Please check the site from time to time to check for these further developments.

We trust you find the course useful.

Question One

Should we register for GST?

QUESTION ONE

We are a small community organisation and the total amount we receive for all the goods and services that we supply are under the registration threshold of \$100,000.

Is there any benefit for us if we register for GST?

ANSWER

In general, yes, but it will depend on what type of community organisation you are.

The General Rule

Most community organisations will benefit by registering for GST.

A very important factor is that the government will be grossing up grants to include GST. In this context many organisations will receive Government grants in excess of the \$100,000 threshold. In addition you may find that many businesses will not deal with an unregistered enterprise.

Community organisations will not be required to charge GST on many of the supplies they provide as they will be GST-free supplies provided as part of a community service programme. They will however have their grants increased to include GST this must be paid over to the ATO.

Community organisations will pay GST on the goods and services they buy for the purpose of making those supplies. Only a community organisation that is registered for GST is entitled to claim back, from the ATO, the GST it pays to its suppliers. These are called GST 'input tax credits'. If the organisation is not registered the GST that the organisation has been charged by its suppliers is an added cost to the organisation.

The amount of GST input tax credits that community organisations will be entitled to claim back will usually be more than the amount of GST that they have charged their customers (apart from the GST on grants).

As a final point it is worth noting that government grants will be included in your 'turnover' figures and therefore only relatively small organisations would have a turnover under the threshold.

Question Two

Monthly or Quarterly

QUESTION 2

As a community organisation, should we choose to lodge our Business Activity Statement monthly, or quarterly?

ANSWER

It depends on the particular circumstances of each organisation.

General Rule

Community organisations have the option to file monthly or quarterly returns provided they have a balance date on 30 June. In each year.

Some community organisations will find that quarterly returns are the better option.

There are good reasons for choosing quarterly periods in certain circumstances.

The main reason would be where GST payable to the ATO in respect of GST included in taxable supplies provided by you exceeds input tax credits due from the ATO i.e. you would be making a payment to the ATO.

The net amount due to the ATO will have accumulated over a period of three months, with a further three weeks at the end, before the payment is physically made. This enables you to invest the relevant amounts in an appropriate way to maximise the cash flow benefit derived.

Compliance costs are usually lower as the figures are accumulated and returned quarterly instead of monthly.

Circumstances where this will apply include:

- You provide taxable supplies by way of the sale of goods and the provision of services which are neither GST-free supplies nor input taxed supplies and these GST supplies made by you are greater than your creditable acquisitions.
- You receive a large part of your funding by way of government grants, most of which are likely to be subject to GST. The recipient is the one providing the relevant services or information, in return for which it receives payment from the grantor.

Question Three

Cash Basis

QUESTION 3

We understand that the cash basis of accounting for GST is easier
Can community organisations register on a cash basis?

ANSWER

Yes, if the organisation qualifies.

General Rule

The general rule is that an enterprise may use a cash basis only if its annual turnover is \$1 million or less.

The government has indicated however that all ‘charities’ may use the cash basis regardless of turnover

Question Four

Related Entities

QUESTION 3

Will the various associations allied to community organisations have to register for GST?

ANSWER

Most of these will be treated as “charities” so unless their annual turnover exceeds \$100,000 they may choose not to register.

If they are not registered they cannot claim input tax credits and there will be GST implications for both you and the associations. It might be advisable for them to obtain an ABN even if they choose not to register for GST.

It also depends on whether the association is run as an integral part of your entity, in which case its transactions would be included with yours, or whether it is registered and/or incorporated as a separate legal entity. In the latter case you could investigate the ability to ‘group’ the various entities.

Question Five

Multiple activities

QUESTION 5

If we operate more than one activity do we need to register each one separately?

ANSWER

Subject to certain qualifications you may register each activity separately, each then becoming a distinct entity for GST purposes. However, you may choose to remain as one 'organisation' for GST purposes thus avoiding the need to include GST on transactions between your activities.

Question Six

Stationery

QUESTION 6

Do we have to order new stationery?

ANSWER

Ensure that your tax invoices comply with the GST requirements and that you can produce the correct Adjustment Notes if required. Details of what is required to be shown on a Tax Invoice appear in the booklets issued by the ATO entitled "Charities, Religious, and Non-profit bodies and the New Tax System". Details of what is required to be shown on an Adjustment Note are given in a draft Tax Ruling GSTR 1999/D1.

This information can be downloaded from the Internet.

If you have existing stationery it can be modified by adding the new information required.

Question Seven

Additional Costs

QUESTION 7

We have calculated that it will cost us a great deal to modify our systems and provide our staff with training. Is there any assistance available?

ANSWER

Yes. The Government has provided funding to various bodies to assist you with implementing the new system. Information is available from the ATO and the GST Start Up Assistance Office.

- ATO Website www.taxreform.ato.gov.au
- The Business Tax Reform Infoline Ph: 13 24 78
- A Fax From Tax Ph: 13 28 60
- By mail PO Box 9935 in all capital cities
- GST Start-Up Assistance Office www.gststartup.gov.au
- Info line for Tax Reform Ph: 13 30 88

Question Eight

Accrual Basis

QUESTION 8

We use an accrual system and allow customers to pay in instalments. Is GST payable and when?

Answer

There will be no GST payable on “GST-free” or “input taxed” supplies made by you.

GST will be payable on the full value of all taxable supplies from the date the tax invoice is issued or the first payment is received, whichever is the earlier.

Question Nine

Adjustments

QUESTION 9

What happens if a transaction amount alters after it has been accounted for in a Business Activity Statement?

ANSWER

There are rules for these to be adjusted by means of Adjustment Notes and the effect taken into account on a subsequent Business Activity Statement.

Adjustments will occur if:

- goods are returned by you to a supplier or to you by a customer
- the original purchase price is altered
- discounts are awarded
- debts become uncollectable or are recovered subsequent to an adjustment having been claimed in a previous period

You will not be able to claim for adjustments which result in less GST being payable unless you have the requisite Adjustment Note.

Question Ten

Input tax credit

QUESTION 10

Can I claim an Input tax credit equivalent to 1/11th of ALL my purchases?

ANSWER

Not quite. Some of your acquisitions may be “input taxed” or “GST-free” so you won’t have paid GST on them. In that case, you can’t claim an input tax credit. As well, there are some purchases that are not deductible for income tax purposes (like entertainment expenses) that might have GST charged on them, but for which GST credits are not allowed. Otherwise you can claim an Input Tax Credit in respect of all purchases of goods and services acquired to carry on your business, that is, “creditable acquisitions”.

Question Eleven

Wages

QUESTION 11

Are salaries and wages and superannuation contributions subject to GST?

ANSWER

No. Note that the PAYE withheld on salaries and wages, as well as any FBT due, may be offset against any GST owing by the ATO in the relevant reporting period.

Question Twelve

Non registered suppliers

QUESTION 12

If a supplier such as a contractor is not registered for GST can we claim an Input Tax Credit?

ANSWER

No. A non-registered enterprise does not issue GST Tax Invoices, without these you cannot claim a credit.

Be aware of the obligation to withhold tax at 48.5% from any such payments if the supplier is a business and does not provide you with an ABN.

Question Thirteen

Petty Cash

QUESTION 13

We use Petty Cash for small purchases. Can we claim Input Tax Credits even if we do not have a Tax Invoice?

ANSWER

You can claim a credit if the purchases were each \$50 or less (excluding GST) and you have documentary evidence to support the claim. Tax Invoices are required for all acquisitions costing more than \$50.

Question Fourteen

Refunds

QUESTION 14

If our Input tax credits exceed the GST payable to the ATO in a Tax period will we receive a refund?

ANSWER

Yes. The ATO is obliged to transfer the refund into your nominated bank account within 14 days of lodging your Business Activity Statement, assuming that you do not have any other tax debts to be offset against this amount. You are entitled to interest from the ATO if this deadline is not adhered to.

Question Fifteen

Insurance

QUESTION 15

Do we have to pay GST on insurance premiums?

ANSWER

Yes, but to the extent that they are an expense in providing your services you will be entitled to the relevant input tax credit.

Question Sixteen

Maintenance Contracts

QUESTION 16

We outsource many of our maintenance and catering activities.

Will the suppliers charge us GST?

ANSWER

Yes, if they are registered for GST, in which case you can claim an input tax credit if the service is necessary for you to carry on your business. If they are not registered you will not pay GST but in all probability their price will be inflated to cover the GST they have had to pay and cannot claim back on their own inputs.

In addition if the business is not registered and does not supply you with an ABN then you will be obliged to withhold tax at 48.5% from any payments you make to it.

Question Seventeen

Motor Vehicle

QUESTION 17

We have budgeted to purchase a new motor vehicle in July for the use of district nurses.

Will we be entitled to an input tax credit in respect to the GST paid?

ANSWER

Yes. You are entitled to a refund of any GST paid on the vehicle provided it is an input into the community service you are providing. You would have been exempt from paying wholesale sales tax on similar vehicles so that the transitional rules affecting this area do not concern you.

Question Eighteen

Operational charges

QUESTION 18

What is the GST status on operational charges to residents?

ANSWER

Nursing home and hostel residents will not pay the GST on their daily fees; they must pay GST on additional services such as hairdressing and personal TV hire.

Question Nineteen

Taxable supplies

QUESTION 19

If we decide not to charge our customers GST on non GST-free goods and services do we escape paying GST?

ANSWER

No. You will be liable for GST on all relevant transactions, “taxable supplies”, even if you do not collect it from your customers. 1/11th of all the invoices you issue must be paid to the ATO. You are obliged to issue your customers with a Tax Invoice for all transactions with a value of more than \$50 (before GST).

Question Twenty

Input taxed supplies

QUESTION 20

Is there any GST payable on accommodation bonds/charges?

ANSWER

Residents of nursing homes and hostels will not pay GST on their accommodation bonds or charges. They are input taxed supplies.

Question Twenty-one

Staff Board

QUESTION 21

We provide full board and lodging for staff in our own residences. What GST is payable?

ANSWER

This is a complex area but basically the accommodation for staff will be an input taxed supply as it is classified as residential rent. No GST will be payable by the staff but neither will you be able to claim any input tax credits in respect of any of the expenses incurred in the cost of providing that accommodation. These include the building of the premises, maintenance, power, insurance, all of which will need to be apportioned if the residential area is part of a building otherwise used to provide taxable or GST-free supplies.

The cost of meals provided to staff is subject to the general GST rules relating to food, some of which is GST-free and the rest is subject to GST.

Question Twenty-two

Category 8 residents

QUESTION 22

Is there any problem related to category 8 residents and residents who are paying the full subsidy due to the income testing arrangements?

ANSWER

Aged care services funded under the Aged Care Act 1997 will be GST free, including services for residents not receiving subsidies (eg. RCS 8 residents, residents whose fees cover their care costs, residents in services subject to sanctions etc). No GST will be payable on services covered under Schedule 1 of the Quality of Care Principles, including meals accommodation, care and other daily living needs.

Question Twenty Three

Staff Car parks

QUESTION 23

We bill staff annually for parking facilities in the hospital car park.

Do we charge GST ?

ANSWER

Yes, on that portion of the invoice, which relates to the period starting 1 July 2000.

This will apply to any taxable goods or services where any part of the supply takes place on or after July 1 2000.

Question Twenty Four

Extra service facilities

QUESTION 24

What are the implications for residents of Extra Service facilities where the Extra Service fees include amounts for goods and/or services outside the Quality of Care Principles?

ANSWER

Residents of Extra Service facilities will not pay GST on their extra service fees, except for amounts that are for additional services, such as hairdressing and personal TV hire.

Question Twenty-five

Community services

QUESTION 25

Will services provided to the community under the CACP's, HACC or the like be subject to the GST?

ANSWER

Community Aged Care Packages and services funded under the Home and Community Care Act will be GST free, as will accommodation support and community care services funded by other Government programs.

Question Twenty-six

Scholarship

QUESTION 26

If a third party sponsors a project for us will it be subject to GST?

ANSWER

Yes. There is usually some benefit to the sponsor in the form of advertising but if it can be shown that the sponsor derives no benefit from the sponsorship then no GST is payable. This would be the case where the sponsor remains anonymous.

Question Twenty-seven

Donations

QUESTION 27

Will donations received by an institution be subject to GST?

ANSWER

GST will not be payable provided that the donation is unconditional. There must be no services, benefits or rights afforded to the donor as any of these might be construed as a 'consideration' and turn the transaction into a taxable supply.

Question Twenty-eight

Government Grants

QUESTION 28

Is GST payable on the grants received from the Government?

ANSWER

It depends on the nature of the grant but if it is for a specific purpose then it will be subject to GST and you will need to provide the grantor with a Tax Invoice.

The ATO is issuing a specific ruling on this area and the government has indicated that it will "gross up" the grants so that your organisation should receive the same net amount, as if no GST applied.

The grants received from the government are treated as being a payment for services provided by your organisation. You are, in effect, invoicing the government for these services and the service is subject to GST. This is so even though you then supply the services as GST-free supplies to your clients.

Question Twenty-nine

Privately purchased care

QUESTION 29

Will privately purchased care be GST free?

ANSWER

Privately purchased nursing and personal care services will be GST free. Other privately provided HACCC-type services, such as delivered meals, home help and gardening, are not GST free.

Question Thirty

Transition

QUESTION 30

We have entered into a service contract, which spans July 1 2000.
What are the GST implications?

ANSWER

A complex area needing careful consideration and/or specialist advice. In general that portion of the fees which cover services to be rendered after 30 June 2000 is subject to GST. This applies both to the receiving and the providing of services, which are subject to GST.

Question Thirty-one

Retirement villages

QUESTION 31

Will the charges for care levied on residents in Retirement Villages be subject to GST?

ANSWER

Retirement Village residents who receive nursing and personal care will receive the same treatment as nursing home and hostel residents. They will not pay GST on their fees and accommodation charges. Residents who do not need such care, but have moved to the retirement village as a lifestyle choice, will receive the same GST treatment as older people who choose to remain in their own homes.

Question Thirty-two

Staff uniforms

QUESTION 32

We purchase safety equipment for our maintenance staff.

Are we entitled to claim input tax credits in respect of the purchases?

ANSWER

Yes, if they are purchased from a registered supplier and provided in your capacity as an employer you may claim input tax credits. If the employees are required to pay for them no input tax credits can be claimed.

Question Thirty-three

Professional development

QUESTION 33

We frequently pay for staff to attend conferences and professional development courses supplied by private providers. Do we have to pay GST on the costs?

ANSWER

Yes, you are acquiring taxable supplies. If the expense is part of your normal operating expenses in providing the accredited services you will be entitled to claim the relevant input tax credits.

In certain cases expenses incurred on the professional development of particular staff members may be considered to be a fringe benefit and advice should be sought if you are in doubt.

Question Thirty-four

Provision of Tea and Coffee

QUESTION 34

Must we include GST in the fee we charge staff for the provision of tea and coffee? This does not include prepared food and beverages.

ANSWER

No, but be sure that only GST-free beverages and food are provided

Question Thirty-five

Fringe Benefits

QUESTION 35

Is GST payable on the cost of Fringe Benefits supplied to staff?

ANSWER

New legislation is expected to clarify the GST and FBT interaction.

Question Thirty-six

Professional development course

QUESTION 36

We run personal development programmes for our staff as part of our professional development for staff. Can we claim input tax credits on the cost?

ANSWER

Yes. These classes are undertaken in the course of your activity.

Question Thirty-seven

Staff reimbursement

QUESTION 37

Staff sometimes purchase goods for the organisation and request reimbursement.

Are we entitled to input tax credits on these items?

ANSWER

In order for you to be able to claim an input tax credit you must have the relevant tax invoice (or receipt if the item cost \$50 or less) and the item must be used as an input into the provision of community service programmes.

Question Thirty-eight

Second-hand Shop

QUESTION 38

We run a shop, which sells second-hand items. Do we charge GST on the sales even if we have paid no GST to acquire the goods?

ANSWER

Yes, you must charge GST on all sales. If you purchased the goods from an unregistered supplier you are entitled to claim an input tax credit calculated at the lesser of 1/11th of the cost of acquisition and the GST on the subsequent sale.

If the second-hand goods were donated to you and you have not altered them in any way then you do not have to charge GST on the subsequent resale.

Question Thirty-nine

Deposits paid

QUESTION 39

We are required to pay deposits for various services at the time we enter into an arrangement with the service provider. Are these subject to GST?

ANSWER

If the deposit is held as security and will be refunded to you at the end of the contract, no GST is payable. If, however, it constitutes an instalment payment made in advance as part consideration for the supply then you will be charged GST thereon.

If the deposit is forfeited then GST is payable.

Question Forty

Tax Exempt Status

QUESTION 40

We have been exempt from income tax and have been able to receive tax deductible donations for specific purposes. What is the situation from 1 July 2000?

ANSWER

You must apply specifically for endorsement as an income tax exempt charity (ITEC), as well as for endorsement as a deductible gift recipient (DGR). This must be done prior to 1 July 2000. The application to register for the New Tax System (which is the ABN application form) includes questions that cover these areas.

Question Forty-one

Non-registered business

QUESTION 41

What is the situation if we are a registered entity and we acquire goods or services from a non-registered business?

ANSWER

If a business is not registered for GST it cannot charge you GST on your acquisitions so there will be no input tax credit available to you.

If the supplier can provide an ABN you have no further obligation.

However, if the supplier does not have an ABN you are obliged to withhold 48.5% of the payment as a withholding tax and pay this to the ATO in your next return. Withholding is generally required unless the supply was for less than \$50, or the payment is exempt income of the supplier (eg the supplier is a charity)

Question Forty-two

ABN not on Invoice

QUESTION 42

We are registered and we acquire goods or services from a supplier who does not provide us with an ABN. What are our obligations?

ANSWER

If the supplier is an individual who is not operating an enterprise then there are no obligations other than to record the acquisition as one on which no GST has been paid, and consequently in respect of which you cannot claim an input tax credit.

However, if the supplier is a business then you are obliged to withhold tax at 48.5% of the invoice and remit this to the ATO in your next return as part of the new PAYG regime.

Withholding is not required if the supply was for less than \$50, the payment is exempt income of the supplier (eg the supplier is a charity), or the payee has made a written, signed statement that the supply is private or domestic in nature or relates to a hobby.

Question Forty-three

Electronic Filing of BAS

QUESTION 43

We are a very small institution and yet we have been told that we have to submit our BAS electronically to the ATO. Is this correct?

ANSWER

The ATO will only refund net credits in respect of GST to you electronically (directly into your nominated bank account) and not by cheque. However, unless your annual turnover is \$20 million or more you are not obliged to submit your BAS electronically.