

# Charitable, Religious and Non-profit Organisations

## The New Tax System

This is the second edition of this booklet.

We have deliberately left out the photos that appear in the printed version of this file.

We have done this to minimise the time it takes for the file to download.

**THE NEW TAX SYSTEM** | **Make it your business**



Australian Taxation Office

Revised 3/3/2000

### About this booklet

This booklet provides an outline of The New Tax System, in particular how the goods and services tax (GST) works. It has been written specifically for you as a charitable, religious or non-profit organisation.

Some of the terms used may be new to you. These terms are shown in **bold** when first used and are explained in the list of definitions at the back of the booklet.

The information in this booklet is current as at 3 March 2000.

### Further information

Further information (including other industry-related booklets) is available on our website at **www.taxreform.ato.gov.au**. You can also phone our business Tax Reform Infoline on **13 24 78** or obtain *A Fax From Tax* on **13 28 60**.

In addition the ATO is producing the following guides on The New Tax System and the non-profit sector. You can order your copy by phoning **13 24 78**.

*CharityPack* is a taxation guide prepared by the ATO to help organisations understand what is a charity and the new charity income tax endorsement entitlements and obligations (order no. NAT 3131).

*GiftPack* explains the new income tax endorsement arrangements for organisations seeking deductible gift recipients status (order no. NAT 3132)

*ClubPack* helps clubs, societies and associations (including recreational clubs, sporting clubs and professional associations) work out their income tax status (order no. NAT 2442).

# From the Chairman, The New Tax System Advisory Board



On behalf of *The New Tax System Advisory Board* I am pleased to endorse this booklet about The New Tax System.

The booklet has been produced by the ATO specifically for charitable, religious and non-profit organisations. The ATO has undertaken consultation with organisations to help ensure this booklet meets the particular needs of charitable, religious and non-profit organisations.

This booklet is just one part of the educational material available to help you prepare for The New Tax System. You can also find out more about The New Tax System through the ATO's telephone information service, a comprehensive education program scheduled between September 1999 and June 2000, and advisory visits by ATO field officers from November 1999. A definitive GST guide will be mailed to businesses when they have registered for The New Tax System. A large range of helpful material is also available from the tax reform website at **[www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au)**

Please take the time to read this booklet and make use of the other materials available to assist your business make the transition to The New Tax System. The transition is not difficult, but will require some planning. I urge you to start that planning now.

**Chris Jordan**  
*Chairman, The New Tax System Advisory Board*

**Charitable, Religious  
and Non-profit Organisations**  
**The New Tax System**

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# The New Tax System

The New Tax System starts on 1 July 2000.

## THE NEW TAX SYSTEM WILL BENEFIT YOU BY:

- abolishing wholesale sales tax and some State and Territory taxes
- substantially reducing industry costs
- providing a single reporting form which replaces several current business tax forms
- reducing the number of times you report to the ATO
- making sure all taxpayers pay their fair share of tax – but no more
- providing quick and easy ways of dealing with the ATO, including through the internet
- helping you to be internationally competitive and lifting the tax burden on exports
- giving State and Territory governments a secure revenue base to pay for community needs
- substantially increasing government support to families and low income earners, and
- dramatically reducing personal income tax, as shown in the table below, and increasing incentives to work and save.

TODAY'S TAX RATES		NEW TAX RATES	
Current scale* taxable income	Tax rate %	New scale* taxable income	Tax rate %
\$0–\$5400	0	\$0–\$6000	0
\$5401–\$20 700	20	\$6001–\$20 000	17
\$20 701–\$38 000	34	\$20 001–\$50 000	30
\$38 001–\$50 000	43		
\$50 001+	47	\$50 001–\$60 000	42
		\$60 001+	47

\* In addition, a low income rebate of up to \$150 continues to apply.

## START-UP ASSISTANCE

To help you, The New Tax System Advisory Board is leading a major education campaign about The New Tax System for business and consumers. The Government is also providing \$500 million to help small and medium, enterprises, charities and the education sector make the transition to GST. Charities will receive \$65 million under the programs administered. The GST Start-up Assistance Office will administer this assistance.

## Major elements of The New Tax System

The major elements of The New Tax System are:

- \$12 billion of income tax cuts every year
- a goods and services tax (GST) of 10 per cent on the **supply** of most goods and services consumed in Australia
- a Pay As You Go system which will replace a number of systems, including Pay As You Earn, the Prescribed Payments System, the Reportable Payments System, provisional tax and company instalments
- extensions to the Diesel Fuel Rebate Scheme
- a luxury car tax and wine equalisation tax (to offset the abolition of wholesale sales tax)
- changes to excise on alcohol
- requirements for endorsement of **charities** as being deductible gift recipients or income tax exempt, and
- reporting fringe benefits on employees' group certificates.

## Charitable, religious and non-profit activities

A key part of The New Tax System is a broad-based GST applying to most goods and services. As part of the broad base, charitable, religious and non-profit organisations will become part of the tax system, but many activities will be GST-free.

The current entity-based exemption system from wholesale sales tax for charitable, religious and non-profit organisations cannot be transferred to the activity-based GST. Input tax credits for GST paid on goods and services purchased by charitable, religious and non-profit organisations will, however, maintain an effective tax-free status of the sector.

This compares with the common practice of input taxing in most other value added tax systems.

Information to help you determine whether your organisation is a charity is contained in part 4 of this booklet.

## How to register for The New Tax System

Registering for The New Tax System, including GST, is as simple as filling in a single application.

When you register you will receive an **Australian Business Number**. This is a new identifier which you will use for your dealings with the Australian Tax Office (ATO) and for future dealings with other government departments and agencies at all levels.

Non-profit organisations with an annual turnover of \$100 000 or more must register for GST. Those with a lower turnover may choose to register. You must have an Australian Business Number to be part of the GST system.

Donations are not included in the calculation of an organisations annual turnover for registration purposes and other GST thresholds.

You must register by 31 May 2000 to be part of The New Tax System on 1 July 2000. You can register electronically through the Business Entry Point at **www.business.gov.au** or send your completed application to the ATO. Your tax agent can also lodge your application through the Electronic Lodgment System.

### NOTE

Charities and most non-profit organisations that are income tax exempt will have more flexible GST registration options. More information on these options is contained in part 4 of this booklet.

## NOTE

You can obtain a registration package by phoning the business Tax Reform Infoline on **13 24 78**.

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## Endorsement of charitable organisations for income tax concessions and gift deductibility

Parliament has passed legislation to introduce from 1 July 2000 a new system of endorsement of charitable organisations as a deductible gift recipient (DGR) and/or income tax exempt charity (ITEC). The legislation is contained in Divisions 30 and 50 of the *Income Tax Assessment Act 1997* and is expected to receive Royal Assent in the near future. The legal meaning of charity includes activities such as religious and educational activities.

## NOTE

You will need to register for The New Tax System and obtain an Australian Business Number before you can apply for endorsement as a deductible recipient and/or an income tax exempt charity.

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### *Outline of how the new arrangements will operate*

- From 1 July 2000, if a charity is not endorsed it will lose any current gift deductibility and income tax exempt status.
- Charitable organisations will need to apply to the ATO to be endorsed and they must be registered for The New Tax System first.
- Most charitable organisations eligible for DGR status would have had their status confirmed previously by the ATO. These charitable organisations will still have to apply for endorsement, however they will not have to go through a full review in order to have their applications endorsed.

- They should apply for registration for an Australian Business Number (ABN) and other elements of The New Tax System as soon as possible.
- The application for registration will ask charitable organisations if they are, or consider themselves to be, a deductible gift recipient and/or an income tax exempt charity. Those which answer 'yes' will be sent the relevant endorsement application forms. Separate applications will be required for each status.
- The forms should be completed and lodged with the ATO in time to enable endorsement by 1 July 2000.
- Organisations applying for endorsement as an income tax exempt charity will have to confirm that they remain eligible and provide some statistical information.

#### NOTE

All DGRs have to obtain endorsement, unless they are named specifically in tax law, whereas endorsement for income tax exemption applies only to charitable organisations. The legal meaning of charity includes activities such as religious and educational activities.

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## Preparing early

Although most elements of The New Tax System start on 1 July 2000, you need to start preparing now. Things you could do include:

- decide whether you should register for GST
- think about contracts you have, or enter into, that go beyond 1 July 2000
- ask your suppliers about cost reductions
- think about the implications of pricing changes
- plan your cash flow
- evaluate your record keeping
- prepare a business plan and timetable
- train and prepare your staff
- prepare your business systems, and
- review your stationery requirements, including **tax invoices** and **adjustment notes**.

# Understanding your GST entitlements and obligations

GST is a broad-based tax of 10 per cent on most **supplies** of goods and services consumed in Australia. GST replaces wholesale sales tax which was applied at varying rates to a range of products.

The consumer will bear the cost of GST, not the organisation providing the goods and services. However, the liability to pay GST to the ATO rests on the supplier of the goods and services, not on their customer.

Consumers will receive large personal income tax cuts and other compensation to offset any rise in prices.

## Reporting

You will report most of your tax entitlements and obligations on a new single form called a **Business Activity Statement**.

At a later date, the ATO will send you information about the Business Activity Statement and instructions on how to fill it in. From February 2000 you will be able to practise lodging your activity statement on the internet.

## How does GST work?

If you are a registered organisation, or required to be registered, GST will be payable by you on certain goods and services

you sell or supply to others in the course of your organisation's activities. These supplies are called **taxable supplies**.

There are other types of supplies where GST does not have to be included in the price. These are called **input taxed supplies** and **GST-free supplies**, and are explained later in this booklet.

GST will also be included in the price of things you **acquire** or import for your organisation. However, if you are registered for GST, you can claim a credit from the ATO for any GST included in the price you pay for things for your organisation. This is called an **input tax credit**.

The difference between the GST payable on your supplies and the GST included in the purchase price of your **acquisitions** is the amount you owe or are owed by the ATO. If your credits are greater than the amount of GST payable, you will be entitled to a refund.

### NOTE

If you are registered for GST and supply goods (to people) free of charge as part of your business, you can claim input tax credits for GST included in the price of your inputs.

The following examples and flow chart explain how GST will work for you.

### EXAMPLE

#### Supply of services

A local GST-registered charity provides soup free of charge to homeless people as part of their charitable operations.

As the supply of the soup is free, GST is not included in the price charged for these services, and therefore is not a taxable supply.

To supply these services the charity purchases a hotplate and other supplies (including plates and utensils), totalling \$1100 (including GST of \$100).

There is no GST payable on the supply of the soup, however the charity can claim input tax credits for the \$100 GST included in the price of its purchases as the supply of the soup is part of its charitable operations. The ATO provides a refund to the charity for \$100, assuming that the charity does not have any other tax debts that would be offset against this amount.

### EXAMPLE

#### Taxable supply of goods

A GST-registered manufacturer sells blankets to a GST-registered wholesaler for \$2200 (including \$200 GST).

The wholesaler sells the blankets to a GST-registered charity retail shop for \$3300 (including \$300 GST).

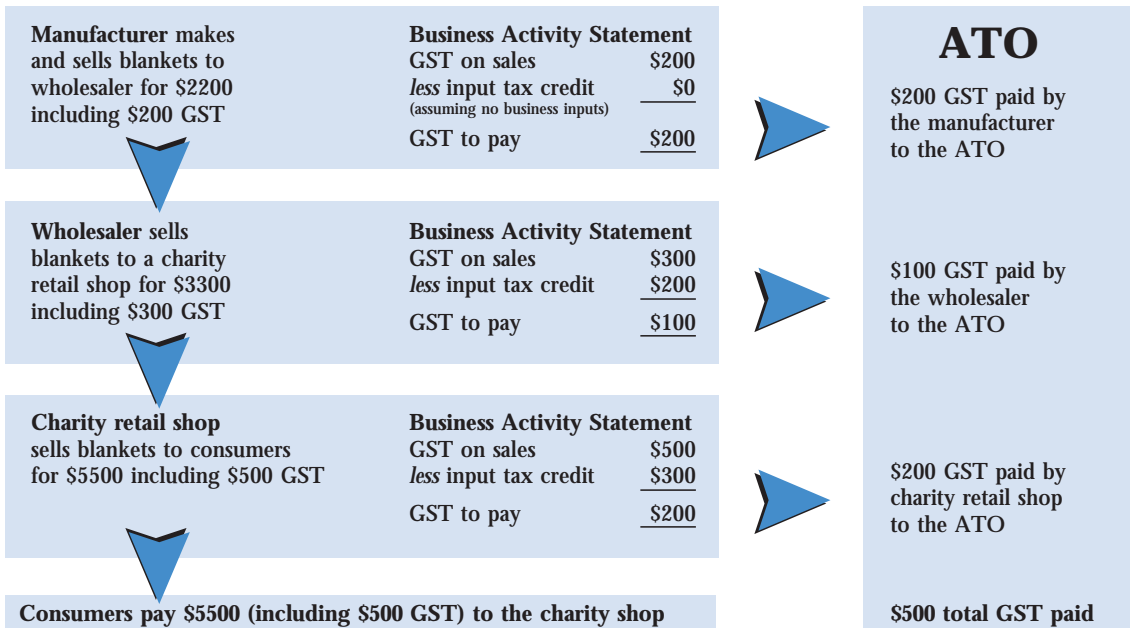
The charity retail shop sells the blankets at market price to consumers for \$5500 (including \$500 GST).

The manufacturer, wholesaler and the charity retail shop are all registered. The manufacturer pays the \$200 to the ATO. The wholesaler offsets the \$200 GST included in the price charged by the manufacturer against the \$300 GST payable on the supply to the charity and pays \$100 to the ATO.

The charity retail shop offsets the \$300 GST included in the price it paid to the wholesaler against the \$500 GST payable on the sales to the consumers and pays \$200 to the ATO.

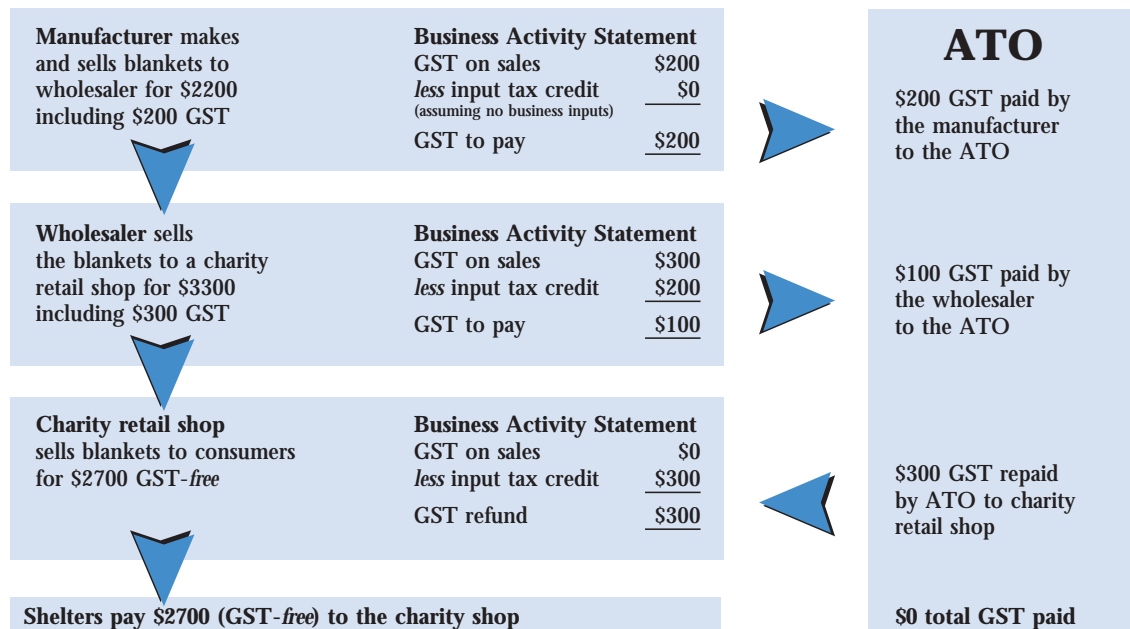
Only the consumers bear the GST on the final product, as consumers cannot claim input tax credits for GST included in the price paid.

## Taxable supply of goods



## GST-free supply

If the supply of the blankets by a charity were for less than 50 per cent of market value, the supply would be *GST-free*.



## NOTE

If you are not registered for GST you will not include GST in the price of the goods and services you supply and you will not be entitled to claim input tax credits for GST included in the price of your organisation's purchases.

### *How do you work out GST on taxable supplies?*

The GST is always included in the price of goods and services you supply or buy but may not be shown separately. To work out how much GST to include in the price of a taxable supply you are selling, divide the value of the supply by 10.

To work out how much GST is included in the price of something you have bought (an acquisition), divide the price by 11.

## EXAMPLE

### Working out the amount of GST

Cam-Huong Kitchen Supplies sells you four saucepans for your soup kitchen. The value of the saucepans is \$200. Cam-Huong calculates how much GST is payable by dividing the value by 10 ( $\$200/10 = \$20$ ). He charges you \$220, that is, \$200 for the saucepans plus \$20 GST.

If you want to work out how much GST is included in the price of the saucepans, you divide \$220 by 11. The amount of GST is \$20.

### *Input tax credits*

Input tax credits are only available for the GST included in the price paid for a **creditable acquisition**. A creditable acquisition is something you acquire for a **creditable purpose** for use in your organisation.

You cannot claim a credit if an acquisition is not for a creditable purpose, that is, if it is for making input taxed supplies (for example, financial supplies) or for a private purpose. The amount of input tax credit is reduced if the acquisition is only partly for a creditable purpose. You will need to apportion the input tax credit accordingly.

## EXAMPLE

### Claiming input tax credits

Patrick, the secretary of a charity, hires a hall on behalf of the charity to run counselling sessions for the long-term unemployed. The hall hire charge is the commercial rate of \$880 (including \$80 GST). The charity is entitled to an input tax credit of 1/11th of \$880, that is \$80.

On the same day Patrick buys a TV for his home for \$770 (including \$70 GST). As this is a private purchase, he cannot claim an input tax credit for the \$70 GST included in the price of the TV.

You do not have to wait until you sell your goods to claim the input tax credit.

If you pay only part of the **consideration** for acquisition you are only entitled to part of the input tax credit.

#### NOTE

You can only claim input tax credits for GST included in the price you pay for supplies acquired for your charitable, religious or non-profit organisation if you are registered. This is why you may choose to register even if your annual turnover is less than \$100 000.

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You are entitled to input tax credits for more than just the materials you use directly in making a supply. For example:

- office expenses, such as telephone, rent and power
- equipment purchases and servicing
- food purchased with GST included in the price to provide to the needy, and
- advertising.

### What is subject to GST?

Most goods and services consumed in Australia will be taxable supplies, that is, they will be subject to GST.

However, no GST will be charged on GST-free supplies and input taxed supplies.

### ***GST-free supplies***

If a supply you make is *GST-free* then:

- you do not charge GST, and
- you can claim input tax credits for GST included in the price you paid for the things you acquired to make the supply.

*GST-free* supplies include charitable activities, non-commercial activities of charities, basic food, exports, sewerage, water and drainage, and most education, childcare, and health services.

Activities of charities that are *GST-free* include:

- all charitable activities provided for no cost
- non-commercial supplies, that is those sold for less than 50 per cent of the GST-inclusive market value of the item or less than 75 per cent of the cost of the supply
- supplies of accommodation sold for less than 75 per cent of the GST-inclusive market value of the supply or less than 75 per cent of the cost of providing the accommodation
- supplies of donated second-hand goods (not reprocessed), and
- raffles and bingo.

More information on these types of *GST-free* supplies is contained in part 4 of this booklet.

### ***Input taxed supplies***

If supplies you make are input taxed then:

- you do not charge GST on the supply, and
- you are not entitled to input tax credits for anything acquired or imported to make the supply.

Input taxed supplies include most financial supplies, most supplies of residential rent and residential premises, and some supplies of precious metals.

If a supply is both input taxed and GST-*free*, the GST-*free* status applies.

### ***Importations***

Everyone has to pay GST on **taxable importations**. This includes organisations that are registered for GST as well as those that are not registered. Customs collects GST on taxable importations. The taxable value for importations is equal to the customs value *plus* the cost of insurance and freight of the goods *plus* any customs duty payable on the import.

For more information on how GST relates to importations, see the ATO publication, *Importing & The New Tax System*.

#### **NOTE**

Wages and salaries paid to employees and superannuation contributions paid on behalf of employees are not subject to GST.

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# Accounting for GST

You will claim input tax credits and account for GST payable on your Business Activity Statement at the end of each **tax period**.

## Tax periods

Tax periods are the reporting periods for GST and can be quarterly or monthly.

Quarterly tax periods are periods of three months ending on 30 September, 31 December, 31 March and 30 June.

Monthly tax periods end on the last day of each calendar month.

If your annual turnover is less than \$20 million, you generally have quarterly tax periods. However, you may choose to have monthly tax periods. You can make this choice when you register for GST or, if you decide later to change your tax periods to monthly, notify the ATO.

You can change back to quarterly tax periods (after at least 12 months) if your annual turnover is still under \$20 million.

Monthly tax periods are compulsory if:

- your annual turnover is \$20 million or more
- you will be carrying on an **enterprise** for less than three months
- you have a history of failing to comply with your tax obligations, or
- your income year does not end on 30 June.

## NOTE

The Government has announced that it will introduce an amendment to allow non-profit entities to choose a quarterly tax period, regardless of the date on which they balance their accounts.

You can end your tax periods up to seven days earlier or seven days later than the standard tax periods if you want to line up your tax periods with your commercial accounting periods. If you do this it will not change the date for lodging your Business Activity Statement or making payments.

## EXAMPLE

### Changing your tax period

A refugee referral centre's normal accounting practice is to balance its accounts every Friday. The centre has quarterly tax periods. As 31 March falls on Tuesday, the centre ends its tax period on Friday 3 April so that it does not have to make a special balance on the Tuesday. The next tax period starts on Saturday 4 April rather than on 1 April. The centre's Business Activity Statement for the tax period ending on 3 April, and any payment, is still due on 21 April.

## Attributing GST and input tax credits to tax periods

There are some rules about how to work out which tax period your GST amounts belong to, that is, which tax period they are attributed to. The rules for **attributing** GST payable and input tax credits to tax periods are different, depending on whether you account for GST on a cash basis or not on a cash basis.

To determine what method of accounting you currently use, look at your invoicing procedures and when you record payments and sales. If you issue or receive an invoice but do not account for the sale of purchase until the cash is received or paid, you are using a cash basis. If you account for the sale or purchase at the time you issue or receive an invoice, you are not using a cash basis.

## NOTE

Charities can account on a cash basis regardless of what their turnover is.

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## Cash basis

If you use a cash basis of accounting you account for the GST payable when you receive payment for a taxable supply, and claim input tax credits when you actually pay for acquisitions. In other words, you cannot claim an input tax credit until you have paid for the goods and services, and you do not have to pay the ATO the GST included in the price of a supply until you receive payment for that supply.

You can use a cash basis of accounting for your organisation if:

- you are a charitable institution, a trustee of a charitable fund or a gift deductible entity, or
- your annual turnover is \$1 million or less, or
- you are properly accounting on a cash basis for income tax purposes (as outlined in Income Tax Ruling TR 98/1), or
- the Commissioner makes a written determination that you can account on a cash basis.

## Non-cash basis

If you do not use a cash basis you will account for *all* GST payable and *all* input tax credits in the earlier of:

- the tax period in which an invoice is issued relating to that supply, or
- the tax period in which any of the consideration is received or made.

### EXAMPLE

#### Accounting on a non-cash basis

A GST-registered charity sells 2000 Christmas cards to a local business for \$2200 (including \$200 GST) on 30 September. The charity gives the local business an invoice on the day of the sale, but payment is not due for 30 days.

The charity's tax period ends on 30 September. As it does not account for GST on a cash basis, the \$200 GST payable is attributable to the tax period ending on 30 September even though it has not been paid by the local business. The local business' input tax credit is attributable to the tax period ending 30 September (provided it does not account for GST on a cash basis) because an invoice has been issued.

Regardless of which accounting method you use, you cannot claim an input tax credit until you receive a tax invoice (unless the GST-exclusive value of the supply is \$50 or less).

## Tax invoices

You must have a tax invoice to claim an input tax credit for a creditable acquisition.

In most cases tax invoices are issued by suppliers. In some special cases they may be issued by recipients of supplies. If you make taxable supplies, your registered customers will need tax invoices to claim input tax credits for acquisitions with a GST-exclusive value of more than \$50. If you are asked to provide a tax invoice, you have to do so within 28 days of the request from the purchaser. For this reason you might choose to issue all your invoices in a form which satisfies the requirements for a GST tax invoice.

You should have a tax invoice before you lodge a Business Activity Statement claiming the input tax credit. If you don't have the tax invoice, you cannot claim the input tax credit until you receive it. If you obtain a tax invoice in a later tax period, you can claim an input tax credit in that period.

Tax invoices are not required if the GST-exclusive value of the supply is \$50 or less. However, you should have some documentary evidence to support all input tax credit claims.

Certain information must be shown on tax invoices.

## Supplies of less than \$1000

Tax invoices for taxable supplies of less than \$1000 must include:

- 1 the Australian Business Number of the supplier
- 2 the GST-inclusive price of the taxable supply
- 3 the words 'tax invoice' stated prominently
- 4 the date of issue of the tax invoice
- 5 the name of the supplier
- 6 a brief description of each thing supplied, and
- 7 when GST payable is exactly 1/11th of the total price, either a statement along the lines of 'the total price includes GST', or the GST amount.

3 TAX INVOICE	
Cancer Association ABN: 32 123 456 789	5 33 Webster Street 1 Jarah SA
Date: 1 August 2000	4
Description of supply	Total
Sun-protective clothing 6	\$825 2
<b>TOTAL PRICE INCLUDING GST</b>	<b>\$825 7</b>

### NOTE

Registered contractors must issue a tax invoice to you to enable you to claim an input tax credit. As unregistered contractors are not able to issue tax invoices, you will not be entitled to an input tax credit for an unregistered contractor's services.

## Supplies of \$1000 or more

Tax invoices for taxable supplies of \$1000 or more must include:

- 1 the Australian Business Number of the supplier
- 2 the GST-inclusive price of the taxable supply
- 3 the words 'tax invoice' stated prominently
- 4 the date of issue of the tax invoice
- 5 the name of the supplier
- 6 the name of the recipient
- 7 the address or the Australian Business Number of the recipient
- 8 a brief description of each thing supplied
- 9 the quantity of the goods or the extent of services supplied, and
- 10 A when GST payable is exactly 1/11th of the total price, either a statement along the lines of 'the total price includes GST', or
- 10 B the GST amount.

## Taxable and non-taxable supplies

If the tax invoice is for a taxable supply and either a GST-free or input taxed supply, the tax invoice must also show:

- 1 each taxable supply
- 2 the amount of GST payable (in relation to the taxable supplies), and
- 3 the total amount payable for the supply.

### NOTE

Invoices in electronic form are tax invoices if they provide all the information required.

3 TAX INVOICE			
Cancer Association ABN: 32 123 456 789		33 Webster Street Jarah SA	
Date: 1 August 2000			
To: Caring Chemist 19 Botany Road Jarah SA			
Qty	Description of supply	Price	Total
50	Sunglasses	\$22	\$1100
TOTAL			\$1100
The total price includes GST			

OR

3 TAX INVOICE			
Cancer Association ABN: 32 123 456 789		33 Webster Street Jarah SA	
Date: 1 August 2000			
To: Caring Chemist 19 Botany Road Jarah SA			
Qty	Description of supply	Value	Total
50	Sunglasses	\$20	\$1000
	GST		\$100
TOTAL AMOUNT PAYABLE			\$1100

TAX INVOICE			
Sunsense Pty Ltd ABN: 32 123 999 789		55 Archer Street Wood SA	
Date: 1 August 2000			
To: Cancer Association 33 Webster Street Jarah SA			
Qty	Description of supply	Price	Total
50	Fabric hats*	\$16.50	\$825
50	Sunscreen sticks	\$5.00	\$250
TOTAL AMOUNT PAYABLE			\$1075
Total includes GST of			\$75
* indicates taxable supply			

## Importations

To claim input tax credits on creditable importations you must have the relevant documentation issued by Customs (rather than the supplier).

## Payments and refunds of GST

The amount you have to pay to the ATO is the difference between:

- the GST you include in the price of sales you make, and
- the input tax credits you are entitled to for GST included in the price paid on things used in your organisation.

This amount has to be paid on or before the 21st day of the month following the end of your tax period.

### EXAMPLE

#### Amount to pay

The GST-registered scout shop makes sales totalling \$2200 (including \$200 GST). The GST payable is attributable to the quarterly tax period ending on 30 September. In the same period the scout shop is entitled to input tax credits of \$150 for GST included in the price paid for goods and services used in the business. The scout shop has to pay \$50 (that is, \$200 – \$150) to the ATO by 21 October.

If the amount of input tax credit owed to you is greater than the GST on your sales, you will receive a refund. The ATO must pay this amount within 14 days of you lodging your Business Activity Statement. If payment is made after this time, interest is payable by the ATO.

### EXAMPLE

#### Amount of refund

If the Scout shop has input tax credits of \$250 (because it purchased a large amount of supplies), it would be owed \$50 by the ATO. If the shop lodges its Business Activity Statement on 21 October, it should receive the \$50 refund from the ATO by 4 November. This is assuming that the shop does not have any other tax debts that would be offset against this amount.

### NOTE

Contact the ATO on 13 24 78 to obtain more information on tax invoices and documents for supplies spanning 1 July 2000. The ATO is preparing rulings on the information requirements for tax invoices and documents for supplies spanning 1 July 2000.

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## Adjustments

From time to time you may need to make an **adjustment** to the amount of GST owed or refunded. This may occur if:

- all or part of a supply or purchase is cancelled
- the price for a purchase or supply is altered (such as when you provide or become entitled to a volume discount or early payment discount)
- a supply becomes taxable or a purchase becomes creditable
- a supply stops being taxable or a purchase stops being creditable
- the purpose of your purchase changes, or
- you have bad debts or you fail to pay a debt.

If you have accounted for GST payable or input tax credits on an earlier Business Activity Statement and one of the above events occurs, you may have paid either too much or too little GST, or claimed too much or too little input tax credit.

In these instances you need to make an adjustment on your Business Activity Statement for the tax period in which the change happens. Depending on the circumstances, this will either decrease or increase the amount of GST payable by you or the amount the ATO has to refund.

You make an adjustment on the Business Activity Statement that covers the tax period when the change happens or when you find out about the change.

### EXAMPLE

#### Adjustment where consideration is reduced

Sally operates a museum of aboriginal artefacts. For the September 2000 quarter tax period, Sally claimed input tax credits of \$80 for framing purchases of \$880 (including \$80 GST). In November the wholesaler gives Sally a volume discount of \$110 for purchases made in the September quarter tax period.

Sally has claimed too much input tax credit. The correct amount of input tax credit for the stationery purchases is \$70 (the GST included in the reduced consideration of \$770).

To correct this, Sally should make an adjustment that reduces her input tax credits by \$10 in the December quarter tax period.

(Note: The wholesaler will have an equivalent, but opposite, adjustment.)

If the supply to you has a value greater than \$50, you must have an adjustment note before you can claim the additional input tax credit.

For more information on the content of adjustment notes please contact the business Tax Reform Infoline on **132 478**.

# GST issues for charitable and non-profit organisations

## What is a charity for GST purposes?

The legal meaning of 'charity' arises from common law and is wider than the commonly understood meaning.

Organisations will be charitable if they are conducted on a not-for-profit basis and are established to benefit the community, or some section of it, through:

- the relief of poverty or sickness or the needs of the young or the aged
- the advancement of education
- the advancement of religion, or
- other purposes beneficial to the community.

If you have any concerns about whether your organisation is a charity contact the ATO business Tax Reform Infoline on **132 478**.

## Poverty, sickness and the needs of the aged

Institutions and funds established for the relief of poverty, sickness and the needs of the aged include:

- hospitals and nursing homes
- relief agencies
- youth and women's refuges
- drug rehabilitation services
- disability services
- refugee welfare centres
- soup kitchens

- organisations that supply low cost furniture, clothing and accommodation to the poor, and
- assistance for disadvantaged aboriginals.

## Education

Institutions and funds established for the advancement of education include:

- preschools
- kindergartens
- schools
- colleges
- universities
- research and scientific institutes
- public scholarship trusts
- school building funds, and
- parents and citizen associations.

## Religion

Institutions and funds established for the advancement of religion include:

- churches
- synagogues and other religious congregations
- seminaries
- religious orders
- organisations for:
  - building or repairing religious buildings
  - maintaining clergy, and
  - spreading religious doctrine and practice.

### ***Other purposes beneficial to the community***

Institutions and funds established for other purposes beneficial to the community include:

- promoting health (for example, educating the public about a particular disease)
- providing community facilities such as museums, libraries, halls, botanical gardens, migrant resource and neighbourhood centres, community radio stations
- promoting art and culture (for example, through music and drama)
- helping to preserve defence and public order and providing emergency services
- relieving distress due to natural disasters such as floods or bushfires
- providing social welfare assistance (for example, through activities like counselling and family or marriage support services)
- helping people cope with the problems of unemployment
- scientific and research purposes, and
- protecting animals and preserving historic buildings.

This list is not exhaustive. Other activities may be charitable where they provide benefits of social value or utility to the community or a section of the community.

### ***Non-charitable institutions***

Institutions and funds whose purposes are *not* charitable include:

- sporting, recreational and social clubs
- organisations carried on for the profit of their members
- organisations carried on for the common interests of the members, such as professional or trade groups
- community service organisations that have a significant membership purpose, such as traditional service clubs, for example Rotary and Lions clubs, and
- commercial or business enterprises operated for fund raising.

#### **NOTE**

The term 'charitable' has the same meaning for GST as it has for income tax purposes.

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## Religious services

The supply of religious services by a religious institution will be GST-free if the services are essential to the practice of the religion.

### EXAMPLE

#### Religious services

A wedding ceremony which is integral to the practice of the religion and is supplied by a religious institution is GST-free.

However, car hire and purchases of flowers for use in a church wedding are not integral parts of the religious service and are not GST-free.

### EXAMPLE

#### Purchases

A religious institution purchases candles for use in its religious services for \$220 (including \$20 GST). The religious institution is entitled to an input tax credit of \$20 for that transaction.

A supply by a non-religious institution is subject to GST regardless of whether it would have been GST-free if made by a religious institution. For example, a marriage ceremony conducted by a civil celebrant will be subject to GST.

## Supplies of goods and services by charities

While most supplies of goods and services by businesses will be subject to GST, some supplies made by charitable institutions, trustees of charitable funds and gift-deductible entities will be GST-free.

Non-commercial activities of charities will be GST-free if the consideration is less than 50 per cent of the GST-inclusive market value or less than 75 per cent of the cost of supply.

### EXAMPLE

#### Supplies for less than 50 per cent market value

A charity sells donated craft goods (baby booties) for \$2. The GST-inclusive market value of the booties is \$6 if sold by a business. As the booties are sold for less than 50 per cent of the market value, that is, less than \$3, the sale will be GST-free.

### EXAMPLE

#### Supplies for less than 75 per cent of the cost of the supply

A charity sells a newsletter for \$1.50.

The cost of producing the newsletter is \$3.

As the newsletter is sold for less than 75 per cent of the cost of the supply the sale will be GST-free.

## Accommodation

As a charity, religious or non-profit organisation you may provide different types of accommodation such as:

- shelters provided without charge
- short term emergency accommodation
- residential care accommodation, and
- long-term residential accommodation.

Accommodation supplies may be taxable, GST-free or input taxed. Accommodation provided by charities charged at less than 75 per cent of the market value or the cost of supply will be GST-free.

The market value guidelines for accommodation are contained the November report of the Charities Consultative Committee (CCC). The report is available on the website at **[www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au)**

More information on residential accommodation is available in the ATO industry booklet *Accommodation & The New Tax System*.

### EXAMPLE

#### Supply of services

A GST-registered charity supplies community housing for \$120 a night. The market value of this supply is \$200 a night. Since the supply of accommodation is made by the charity for less than 75 per cent of its market value, it will be GST-free.

The supply is GST-free, therefore the charity will not include GST in the price charged for the accommodation.

To supply this housing, the charity purchases a computer and other supplies (including office rental, telephone and power costs) totalling \$11 000, including \$1000 GST. However, the charity can claim input tax credits for the \$1000 GST included in the price of its purchases related to the supply.

## Second-hand goods

### *Donated second-hand goods*

Second-hand goods are considered to be goods which have been used previously. Donated second-hand goods will be GST-free where supplied by a charity and provided they retain their original character. The sale of clothing that has been cleaned and repaired for sale is GST-free, but the sale of goods made from recycled clothing is subject to GST (if it was subject to WST prior to the introduction of GST). Sales from opportunity shops will generally be GST-free, while the sale of industrial cleaning rags that have been made from recycled clothing will be subject to GST.

#### **EXAMPLE**

### **Donated second-hand goods**

A charity receives donations of damaged second-hand clothes. If the donated clothing is cleaned and/or repaired prior to sale it will be GST-free. If the second-hand clothes are cut up and sold as rags, the sale of the rags will be subject to GST as they are no longer the same as the goods that were donated, but have been manufactured by the charity into a new product, that is, rags.

## Donations, grants and sponsorships

The GST treatment of funds raised or earned by charities depends on whether:

- the funds are considered to be an unconditional donation, and
- the funds are paid in return for goods or services or rights (certain types of grants).

### *Donations*

A donation in the form of a payment, in cash or in kind, that is made unconditionally, is not subject to GST because no benefits or rights flow as a result of the payment and the recipient does not have to use the donation for a particular purpose.

Unconditional grants and unconditional sponsorships are also not subject to GST for similar reasons.

#### **EXAMPLE**

### **Collection plate**

A religious institution collects \$150 through the collection plate. The collection of \$150 is a donation and is not subject to GST.

## EXAMPLE

### Donated goods from stock

Michaela is a florist. She donates to a charity the flowers she was unable to sell at the end of the day's trading. As this is a donation it is not subject to GST. Michaela is entitled to an input tax credit for GST included in the price paid to the grower, even though some of the flowers were donated.

## Grants

When a grant is paid to your organisation for a specific purpose or with any conditions, GST is payable on the grant if you are registered for GST. If there is no obligation tied to the grant and no other supply to be provided by your organisation, GST will not be payable.

Where GST is payable, the amount payable to the ATO is 1/11th of the grant. The entity making the grant (the grantor) is entitled to an input tax credit equal to 1/11th of the grant amount. You will need to give them a tax invoice.

Where your organisation is not registered for GST no GST is payable and the grantor is not entitled to an input tax credit.

## EXAMPLE

### GST and grants

A local GST-registered charity receives a grant of \$4400 from the local council to provide a counselling service for youth. As the charity is registered for GST, it must pay 1/11th of the grant, that is \$400 to the ATO, and the local council can claim \$400 as an input tax credit.

## NOTE

The Government has decided that where Commonwealth Government Departments provide grants to GST-registered charities, the grant will be grossed up by 10 per cent.

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### EXAMPLE

#### Grants are revenue neutral

A GST-registered charity receives an annual grant of \$10 000 from the council to provide community counselling services. From 1 July 2000, the charity will have to pay 1/11th of its grant to the ATO as GST.

To maintain the existing level of funding, the council can increase the grant by \$1000 to \$11 000. The council claims \$1000 as an input tax credit. The effect on both the council and the charity is revenue neutral.

### NOTE

If a government agency provides a grant to a registered entity (such as a community organisation, charity or business) in exchange for goods and services, the grant will be consideration for a taxable supply and GST will be payable.

The entity that provides the goods and services and receives the grant must pay GST equal to 1/11th of the grant. The government agency that makes the grant will be entitled to an input tax credit equal to 1/11th of the grant.

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### Sponsorships

Amounts paid as sponsorship fees are usually payment for services (such as advertising) and will be subject to GST if the sponsored entity is registered for GST.

#### Monetary sponsorship

If the organisation supplying the service (such as advertising) is registered or required to be registered for GST, the organisation paying the sponsorship fee will be entitled to an input tax credit of 1/11th of the payment if it is registered.

If the entity supplying the services is registered it will be liable to pay GST on the supply.

### EXAMPLE

#### Sponsorships

A GST-registered charity is given a \$2200 sponsorship by a local business in return for advertising in its newsletter.

GST is payable by the charity on the supply.

The GST payable is 1/11th of the amount paid, that is, \$200.

The local business is entitled to an input tax credit of \$200.

## Non-monetary sponsorship

If a sponsor provides goods and services in return for other goods and services, such as advertising or promotion, there is a supply by both parties to each other. This is called 'contra sponsorship'. If both parties are registered for GST, each will be liable to pay GST on the supply to each other. The GST will be 10 per cent of the GST-exclusive market value of the supply made by the other party, or 1/11th of the GST-inclusive market value.




Where a supply of equal value is made by each party to the other in the same tax period, no GST will be payable to the ATO because the value of the supply is the same as the value of the acquisition (assuming the value is determined by arms length dealings). Each party will still need to account for GST payable and input tax credits on each transaction.

## EXAMPLE

### Contra sponsorship

A local club provides a venue to a local GST-registered charity for their annual gala dinner in return for advertising. Each supply has a GST inclusive value of \$1100.

GST would be payable by the registered club as 1/11th of the market value (including GST) of the advertising received as consideration for the supply of the venue. GST would also be payable by the charity as 1/11th of the market value (including GST) of the venue hire received as consideration for the supply of the advertising. Both parties would be entitled to input tax credits equal to the amount of GST payable (assuming they are entitled to a full input tax credit).

Net GST liability		Charity	Club
GST payable		\$100 GST payable on the value of the venue hire received from the club.	\$100 GST payable on the value of the advertising received from the charity.
Input tax credit available		\$100 1/11th of the GST-inclusive market value of the venue hire received.	\$100 1/11th of the GST-inclusive market value of the advertising received.
Net payable		\$100 - \$100 = nil	\$100 - \$100 = nil

Note: The GST payable and the input tax credits available may not be in the same period.

## Fundraising

GST will generally be payable on fundraising activities by registered enterprises (including charitable institutions, a trustee of a charitable fund or gift deductible entities). The GST treatment of fundraising activities can vary according to the nature of the activity.

You will need to assess each activity individually, calculating any GST payable.

Activities such as fetes, lamington or pie drives, cake stalls, and fundraising dinners conducted by a GST-registered charity can use the flexible registration arrangements so that GST is not applied to sales at these events. In addition, most non-profit organisations with income tax exemption will also be able to arrange such activities so that no GST will be charged on sales. More information on new flexible registration arrangements is contained later in this booklet.

The following fundraising activities conducted by charities will be *GST-free*:

- raffles, and
- bingo.

### EXAMPLE

#### Fundraising

A charity sells 1500 tickets to a fundraising dinner at a cost of \$1000 (including \$100 GST) per head.

The supply of the ticket will be taxable as the dinner is considered a commercial activity, consistent with current income tax treatment.

## Fundraising by non-profit organisations

The flexible arrangements available for charities will also be available for most non-profit organisations. If these arrangements are not utilised, fundraising conducted by GST-registered non-profit organisations will generally be subject to GST.

### EXAMPLE

#### Cash prize

The Charlton Swimmers Club, which is a non-profit sporting club registered for GST, runs a fundraising raffle to send their athletes to an interstate swim meet.

The club raffles a cash prize of \$500. A total of \$1160 was collected from consumers for the raffle resulting in a margin of \$660 (that is, the total collected minus the total cash prize). The amount of GST payable is \$60 (1/11th of \$660). As there are no input tax credits on the cash prize the club must pay \$60 GST to the ATO. The club makes \$600 total profit.

### Non-monetary prizes

GST will be included in the purchase price of non-monetary prizes. If the entity is registered for GST, it can claim input tax credits for the GST included in the price paid for the non-monetary prizes when they are purchased.

#### EXAMPLE

##### Non-cash prize

The club raffles a non-cash prize purchased for \$550 (including \$50 GST). A total of \$1210 was collected from consumers for the raffle. As there is no cash prize the margin is \$1210. The amount of GST payable on the margin is \$110 (1/11th of \$1210). An input tax credit of \$50 can be claimed for the non-cash prize. The club must pay \$60 GST (that is, GST on margin minus input tax credit) to the ATO. The club makes \$600 total profit.

#### EXAMPLE

##### Combination of cash and non-cash prize

The club raffles a cash prize of \$275 and a non-cash prize purchased for \$275 (including \$25 GST). A total of \$1210 was collected from customers for the club, resulting in a margin of \$935 (that is, the total collected minus the total cash prize). The amount of GST payable on the margin is \$85 (1/11th of \$935). An input tax credit of \$25 can be claimed for the non-cash prize. The club must pay \$60 GST (that is, GST on margin minus input tax credit) to the ATO. The club makes \$600 total profit.

## Memberships

### Membership fees

Generally membership, joining and renewal fees are payments in return for services or rights and will be subject to GST. Membership bestows rights to members even where nothing tangible is supplied.

### Term memberships

If you have sold a membership for a pre-determined period and the membership has been paid in full before 2 December 1998, no GST will apply. If this membership is paid on or after 2 December 1998 then the part that relates to the period after 1 July 2000 may be subject to GST.

### Life memberships

A life membership is a membership for an indefinite period. If you have sold a life membership that has been paid in full on or after 2 December 1998, the entire life membership fee will be subject to GST.

## EXAMPLE

### Membership fees

A non-profit sporting association registered for GST charges an annual membership fee of \$55. The fee includes GST of \$5.

## GST grouping

Entities, including partnerships, trusts and companies with common ownership or common membership of a non-profit association, often operate as a group. Entities may apply to the Commissioner of Taxation to be treated as a **GST group** to reduce administrative and compliance costs of accounting for their intra-group transactions.

The effect of forming a GST group is that transactions between entities within the group are not treated as taxable supplies, that is, no GST is payable and no input tax credit can be claimed.

One entity, known as the 'representative member', manages the GST affairs of the group and is responsible for lodging the Business Activity Statement on behalf of all members.

The representative member is also responsible for all the GST payable and is entitled to all input tax credits that the members of the group are entitled to for supplies and acquisitions made outside the GST group.

While the representative member is responsible for paying GST, the members of a GST group are jointly and severally liable to pay any amount payable under the GST law by the representative member.

Companies can form a GST group if each company:

- is a member of the same 90 per cent owned group as all other members of the GST group or proposed GST group
- is registered for GST
- has the same tax periods
- accounts for GST on the same basis (that is, cash or non-cash), and
- does not belong to any other GST group.

A GST group can also be formed by some or all of the non-profit bodies that are members of the same non-profit association. The 90 per cent beneficial ownership requirement does not apply to GST groups formed by non-profit bodies.

For more information on the requirements for trusts and partnerships, contact the business Tax Reform Infoline on **13 24 78**.

## GST branches

A GST-registered entity which operates through a branch structure (for example, interstate divisions operating independently) may choose to register a branch or branches separately for GST. Where the entity registers a branch for GST reporting purposes, the entity is called the 'parent entity'.

By registering a branch of your business as a GST branch it effectively operates as a distinct entity for GST purposes. This means:

- GST is payable on transactions between GST branches and the parent entity, and
- GST is payable on transactions between GST branches.

Generally, a branch of a registered entity is able to register as a GST branch if:

- the branch has an independent system of accounting
- the branch can be separately identified either because the activities of the branch are distinct from the other activities of the entity (for example, a chemical division and a brick manufacturer) or because the branch is in a location distinct from the other parts of the entity (for example, interstate)
- the entity carries on (or intends to carry on) an enterprise through the branch, and
- the entity is not a member of a GST group.

### **GST flexibility for non-profit organisations**

Most non-profit organisations with small independent branches ('units') have the option of treating their units as if they were separate entities for GST purposes and not part of the main organisation. A unit will be considered to be independent if it keeps its own accounting records and can be separately identified by the nature of its activities or by its location. For example, units could include a branch, fete, lamington drive or fundraising dinner.

It means, that where the unit's turnover is less than \$100 000, the unit can choose whether it registers for GST or not. Where the unit has a turnover of \$100 000 or more, it will have to register separately for GST and will have the same rights and obligations as other GST registered entities.

The liability for all GST obligations of the unit will be imposed on the persons responsible for the management of the unit.

If an entity chooses to treat units of its organisation as separate entities for GST purposes, it cannot revoke this choice within 12 months of the choice being made. The entity must record each unit that is being treated as a separate entity for the purposes of GST.

This additional flexibility was requested by the sector through the CCC and will enable many non-profit organisations to achieve a substantial reduction in their compliance costs. It provides greater flexibility than in some overseas countries, for example UK where recent proposals increase the number of events that are allowed to be input taxed, from two to four, but provides similar flexibility to the model used in NZ and Canada.

This option is available to charitable institutions, trustees of charitable funds, gift deductible entities as defined in the *A New Tax System (Goods and Services Tax) Act 1999* and also certain non-profit bodies that are income tax exempt.

## EXAMPLE

### Non-profit sub-entity

A GST-registered school runs a fete once a year to raise money for school activities. Separate accounting records are kept for the fete. From the turnover of previous school fetes it is estimated that the current year's fete will raise \$60,000. Since the fete keeps a separate accounting system and it conducts different activities to the school's activities, the school may elect to treat the school fete as a separate entity for GST purposes. Because the turnover of the fete is less than \$100 000, the organisers of the fete can choose whether or not they want to register the fete for GST purposes. If the organisers choose not to register the fete for GST, the sale of items at the fete will not have GST included in the price. However, GST that has been included in the price of inputs to the fete such as the hire of stalls and a marquee cannot be claimed as input tax credits.

## Food

If you are involved in the production, preparation or supply of food for human consumption, you will need to understand what is defined as 'food', what food is GST-free and what food is not GST-free.

### What is defined as 'food'?

For GST purposes 'food' means:

- food for human consumption (whether or not requiring processing or treatment)
- ingredients for food for human consumption

- beverages for human consumption (including water)
- ingredients for beverages
- goods to be mixed with or added to food for human consumption (including condiments, spices, seasonings, sweetening agents or flavourings)
- fats and oils marketed for culinary purposes, or
- any combination of any of the above.

### What is not defined as 'food'?

There are three exclusions from the meaning of food to make it clear that certain animals and plants are not food for GST purposes until they have been subject to further processing or treatment. The exclusions are:

- live animals – however, live crustaceans and molluscs (for example, lobsters, oysters and crabs) will be GST-free where they are sold for human consumption
- unprocessed grains, cereals or sugar cane – however, if they have been processed or treated, resulting in an alteration of their form, nature or condition, they will be GST-free
- unprocessed cows' milk, and
- plants under cultivation – this ensures that plants are not sold GST-free where they are still in a growing medium.

Food marketed for animals is not GST-free as it is not for human consumption.

### **What food is GST-free?**

Most food for human consumption is GST-free. This includes food such as fruit and vegetables, meat, eggs, bread, cheese, soup, milk, tea, coffee, some fruit and vegetable juices, breakfast cereals, flour, infant formula and sugar. Ingredients for food for human consumption, some beverages, and fats and oils for culinary purposes are also GST-free.

### **What food is not GST-free?**

Food that falls into any of the following categories is not GST-free:

- restaurant, takeaway and prepared food
- bakery products
- confectionery
- savoury snacks
- ice-cream
- biscuit goods, or
- taxable beverages.

Food that is a combination of food that is GST-free and one or more foods from the above categories will not be GST-free. For example, a snack pack containing both cheese (which is GST-free) and biscuits will not be GST-free. However, the separate items of food in a hamper are taxed individually.

### **Restaurant, takeaway and prepared food**

Restaurant, takeaway and prepared food will be subject to GST, including:

- all food and drink supplied for consumption on the premises where it is supplied
- all hot food supplied for consumption away from premises, and
- food that is included in the category of prepared food listed in Schedule 1 of *A New Tax System (Goods and Services Tax) Act 1999*. This includes food similar to food sold by takeaway outlets (such as sandwiches, pizza and pies) that is sold at a supermarket or similar outlet. It also includes frozen meals sold in a form that only requires heating for consumption (such as a TV dinner).

#### **NOTE**

If consideration for the supply of food is less than 75 per cent of the price of supplying the food, or less than 50 per cent of the GST-inclusive market value of the food the supply is GST-free when it is supplied by a charity.

For more information on food please refer to the ATO industry booklets *Retailing and Wholesaling and The New Tax System* and *Restaurants, Cafes and Caterers and The New Tax System*.

## Input tax credits for new motor vehicles

Input tax credits for GST included in the price of new motor vehicles (which will further reduce vehicle costs for business use) will be phased in over a two-year period, as shown in the following table.

Full input tax credits are available from 1 July 2000 if:

- the purchase is for a second-hand motor vehicle, body or trailer, or
- you would have been entitled to exemption from wholesale sales tax (WST) on the purchase of the vehicle, if it still applied.

### NOTE

Charities previously entitled to WST exemptions will be entitled to full input tax credits on new motor vehicles from 1 July 2000.

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Date of purchase	Percentage* of GST payable on a new motor vehicle** that is available as an input tax credit	Charities previously entitled to wholesale sales tax exemption – input tax credit entitlement
From 1 July 2000 up to and including 30 June 2001	0	100
From 1 July 2001 up to and including 30 June 2002	50	100
From 1 July 2002 onwards	100	100

\* This percentage is based on the vehicle being acquired and used solely for business purposes.  
 \*\* Motor vehicles include bodies for motor vehicles and semi-trailers.

## Insurance

The supply of most types of general insurance is a taxable supply and is subject to GST. General insurance includes policies for motor vehicles, third party property, fire, theft and loss of income insurance.

For more information on insurance please refer to the ATO industry booklet *Insurance & The New Tax System*.

## Contracts

Supplies made from 1 July 2000 under contracts entered into on or after 8 July 1999 (when GST became law) will be subject to GST.

To protect tax revenue and to ensure a level playing field for all businesses and consumers, the Government has introduced some transitional rules. These rules are for contracts and agreements entered into before the implementation of GST, where these involve the supply of anything on or after 1 July 2000.

If you are entering into any contract (as a supplier), you may need to consider the effects of GST when negotiating the contract price. This is particularly important for contracts spanning the transitional period, as you may end up being liable to pay GST and not being able to recover it from your customer.

The impact of GST on contracts entered into before 8 July 1999 which span the transitional period will vary depending on:

- the date on which the contract is entered into
- the date on which full payment was made
- whether the contract is reviewable or non-reviewable, and
- whether your customer is entitled to full input tax credits.

### ***Leasing, rental and hire-purchase***

Leases, rental and hire-purchase arrangements are contractual arrangements. Leases and rental arrangements are taxable supplies and therefore any payments are subject to GST.

Hire-purchase arrangements have two components. The supply of the asset being hire-purchased will be a taxable supply and subject to GST. The provision of credit for the hire-purchase arrangement will be a financial supply and therefore input taxed.

Certain credit transactions similar to loans are financial supplies and are input taxed. The ATO will provide more information on financial supplies.

For further information on contract arrangements please refer to the ATO's transitional fact sheet, *GST transitional arrangements – contracts which span the implementation of GST*, which is available from the website at **[www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au)** or by phoning the business Tax Reform Infoline on **13 24 78**.

### **The Charities Consultative Committee**

The GST Charities Consultative Committee (CCC) was established in August 1999 at the request of the Prime Minister. The purpose of the CCC was specified by the Prime Minister in his letters to the public of 28 May and 22 June 1999 as being to:

- develop rulings well in advance of the introduction of the GST following identification of issues from the sector
- inform the sector on the impact of the GST, and
- monitor the potential impact of the GST on 'sheltered workshops' and neighbourhood centres.

### ***The communication process of the Charities Consultative Committee***

The CCC established a communication process from the first meeting. The major intention of this process was to ensure the consultations and decisions of the CCC were overt and decisions were distributed as widely as possible within the sector and across the community generally. Members of the CCC undertook to play their role in the distribution of information. The ATO, as chair and secretariat for the CCC, implemented a number of processes to assist the CCC to perform the task of information dissemination. These processes were:

- a newsletter describing the decisions of each meeting and the action items arising and resolved. These newsletters were distributed both electronically and by hard copy to peak bodies, government departments and any organisation or individual who requested them. Peak bodies also incorporated them into their own newsletters
- the placement of all documents listed in this report on the ATO's tax reform website

- a standing agenda item that examined the progress to date on education activity being undertaken or planned by the ATO for the charitable sector. Items for discussion included the feedback arising from the general seminar program, the development of a Charity specific seminar program and the development of a Train the Trainer education strategy, and
- status reports from the GST Start-up Office were also included as a standing agenda item to ensure the activities of the Office and the ATO were complimentary.

The outcomes and decisions reached by the CCC are available on the ATO's Tax Reform website at **[www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au)**

### ***Resolved issues***

One of the major outcomes arising from the CCC was the collation of a large number of diverse questions which were categorised into nine major issues with subsidiary questions. The ATO then provided the policy intent of the major issues and the ATO's position on the subsidiary questions.

The *Resolved Issues Document* which resulted from this work is available as a public document. The ATO's responses in the document are binding.

The *Resolved Issues Document* has been distributed by CCC members throughout the sector and has been posted on the ATO's web site. The ATO has agreed to continue to use the document as a basis for continuing to resolve issues and disseminate information into the future.

### **Who will monitor prices?**

When making pricing decisions to take into account The New Tax System changes, including GST, organisations need to be aware that a new law has been passed that prohibits price exploitation in relation to these changes. Price exploitation occurs where an organisation does not pass on to consumers cost savings arising from tax reforms or where it increases prices unreasonably.

The ACCC will extensively monitor prices to make sure they are adjusted properly and make sure price changes are consistent with the changes in tax rates.

Further information is available from the website at **[www.accc.gov.au](http://www.accc.gov.au)** or you can contact the ACCC on **1300 302 502**.

# List of definitions

These are some of the new terms used in this booklet.

## **Acquire**

Acquire includes buying goods and services for your enterprise, and other transactions as explained in the definition of acquisition.

## **Acquisition**

Acquisition is a very broad term. It includes what you buy (goods and services and anything else) for your enterprise. It also includes many other transactions, such as getting advice or information, taking out a lease of business premises or hiring business equipment.

## **Adjustments**

Adjustments are the changes you may need to make on your Business Activity Statement to increase or decrease your net GST amount payable or refundable for a tax period.

The changes may be needed to:

- vary the GST payable on supplies you have made because something has happened to change the GST payable by you, and included on a previous activity statement, or
- vary the input tax credits for your acquisitions because something has happened to alter the amount of input tax credits you claimed on a previous activity statement.

## **Adjustment note**

Adjustment notes are generally issued by suppliers. They detail changes to consideration for a supply. You will need an adjustment note from the supplier before you can claim additional input tax credits for an acquisition for which you have been required to pay more.

## **Attributing**

Attribution rules determine to which tax periods your GST payable and input tax credits belong. The rules for attributing GST payable and input tax credits to tax periods are different, depending on whether you account on a cash basis or a non-cash basis.

## **Australian Business Number**

The Australian Business Number is the new identifier for your dealings with the ATO and for future dealings with other departments and agencies.

## **Business Activity Statement**

This is the single form you use to account for GST and some other taxes. A Business Activity Statement (sometimes referred to as an activity statement) must be lodged by a registered entity for each tax period.

## **Charity**

A charity is an organisation that undertakes charitable activities. The term 'charitable' has a technical legal meaning which is different from its everyday meaning. Activities will be charitable if they are to benefit the community, or some section of it, through:

- the relief of poverty or sickness or the needs of the aged
- the advancement of education
- the advancement of religion, or
- other purposes beneficial to the community.

## **Consideration**

Consideration has a wide meaning for GST purposes. Any payment (in money or kind) made in return for a supply is consideration. It includes doing something or not doing something in response to a supply, or to get someone to make a supply.

## **Creditable acquisition**

You make a creditable acquisition if:

- you acquire a thing for a creditable purpose
- the supply of a thing to you is a taxable supply
- you provide, or are liable to provide, consideration for the supply, and
- you are registered or required to be registered.

## **Creditable purpose**

This applies to something acquired in carrying on your enterprise. Remember that an acquisition for making input taxed supplies or acquired for private use is not for a creditable purpose.

## **Enterprise**

An enterprise includes an activity or series of activities done in the form of a business or in the form of an adventure or concern in the nature of trade.

## **Entity**

An entity is an individual (for example a sole trader), a body corporate (a company), a corporation sole (an ongoing paid office, for example a bishopric), a body politic, a partnership, an unincorporated association or body of persons, a trust, or a superannuation fund.

## **GST-free supply**

If a supply is GST-free you do not charge GST on the supply, but you are entitled to input tax credits for anything acquired or imported for use in your enterprise.

## **GST group**

Entities, including partnerships, trusts and companies with common ownership, often operate as a group. The effect of forming a GST group is that transactions between entities within the group are not treated as taxable supplies, that is, not subject to GST.

### ***Input tax credit***

You are entitled to an input tax credit for the GST included in the price you pay for an acquisition or the GST paid on an importation if it is for use in your enterprise, but not to the extent that you use it to make input taxed supplies. You will need to have a tax invoice to claim an input tax credit (except for purchases of \$50 or less).

### ***Input taxed supply***

If a supply is input taxed you do not charge GST on the supply, but neither are you entitled to input tax credits for anything acquired or imported to make the supply.

### ***Supplies***

Supplies include the goods and services sold in your enterprise. They also include many other transactions such as when you provide advice or information, lease out commercial premises or provide hire equipment. Not all supplies are taxable supplies.

### ***Supply***

Supply is a very broad term and includes selling goods and services, providing advice or information, and other transactions as explained in the definition of supplies.

### ***Taxable importations***

GST is payable on importations unless the goods qualify for certain customs duty concessions or would have been GST-free or input taxed if they had been supplies. GST is payable on taxable importations regardless of whether you are registered or required to be registered for GST purposes.

### ***Taxable supply***

The term is widely defined to include most supplies (goods, services and anything else) you make. A supply is not a taxable supply if it is GST-free or input taxed.

### ***Tax invoice***

A tax invoice is a document generally issued by the supplier. It shows the price of a supply and indicates whether it includes GST and may show the amount of GST. It must show other information, including the Australian Business Number of the supplier. You must have a tax invoice before you can claim an input tax credit on your Business Activity Statement (except for small amounts). If you do not have a tax invoice you should delay making a claim until you do.

### ***Tax period***

A tax period is the length of time for accounting for GST on your Business Activity Statement. It may be quarterly or monthly, depending on your annual turnover. Quarterly tax periods are periods of three months ending on 31 March, 30 June, 30 September and 31 December. Monthly tax periods end on the last day of each calendar month. An activity statement must be lodged for each tax period.

# Industry booklets

Other booklets in the series include:

- Accommodation & The New Tax System**
- Arts and Culture & The New Tax System**
- The Building and Construction Industry & The New Tax System**
- Business and Professional Services & The New Tax System**
- Child and Aged Care & The New Tax System**
- Commercial Fishing & The New Tax System**
- The Communications Industry & The New Tax System**
- Cropping & The New Tax System**
- Dairy Farming & The New Tax System**
- Federal and State Public Sector & The New Tax System**
- The Health Industry & The New Tax System**
- Higher Education and Training & The New Tax System**
- Horticulture & The New Tax System**
- Importing & The New Tax System**
- Insurance & The New Tax System**
- The Livestock Industry & The New Tax System**
- Local Government & The New Tax System**
- Manufacturing & The New Tax System**
- Mining and Energy & The New Tax System**
- Property & The New Tax System**
- Registered Clubs, Pubs and Hotels & The New Tax System**
- Restaurants, Cafés and Caterers & The New Tax System**
- Retailing and Wholesaling & The New Tax System**
- Road Transport & The New Tax System**
- Schools & The New Tax System**
- Sport, Recreation and Gaming & The New Tax System**
- Storage, Hire and Rental & The New Tax System**
- The Taxi Industry & The New Tax System**
- The Timber Industry & The New Tax System**
- Travel and Tourism & The New Tax System**

# Need more information?

If you would like to find out more about GST and The New Tax System:

phone the  
business  
Tax Reform  
Infoline on  
13 24 78

download  
information  
from our  
website at  
[www.taxreform.ato.gov.au](http://www.taxreform.ato.gov.au)

obtain  
A Fax From  
Tax on  
13 28 60, or

write to us at  
PO Box 9935  
in your  
capital city.

If you do not speak English and need help from the ATO,  
phone the Translating and Interpreting Service (TIS) on **13 14 50**.

A TTY service is available by contacting **1300 130 478**.



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