

kpmg

**Australian Bridge Federation**

**GST Briefing Paper**

KPMG Consulting

October 1999

*This report contains pages*

082574sd001brief-r1910MJM

## **Contents**

<b>Introduction</b>	<b>2</b>	Bank charges	11
Background	2	Other issues	11
Awareness of GST	2	<b>Appendix A - GST Legislation Overview</b>	<b>13</b>
<b>Registration</b>	<b>3</b>	<b>Appendix B – Impact on accounting systems</b>	<b>20</b>
<b>Accounting systems</b>	<b>4</b>	<b>Appendix C – Required details for GST invoice</b>	<b>22</b>
<b>Bridge Club income streams</b>	<b>5</b>		
Membership income	5		
Table money	5		
Congress income	5		
Kitchen income	6		
Lesson income	6		
Sale of bridge club supplies	7		
<b>Bridge Club expenses</b>	<b>8</b>		
Rent	8		
Director’s fees	8		
Purchase of kitchen supplies	9		
Purchase of consumables – pads, pens, scoresheets etc	9		
Affiliation fees	9		
Masterpoints	9		
Championship entry fees	10		
Prize money	10		
Non monetary prizes	11		
Training	11		
Operating expenses	11		

## **Introduction**

### **Background**

This briefing paper has been initiated by the Australian Bridge Federation (“ABF”) on behalf of its constituent members. Its aim is to provide an all encompassing advice of the effects of the Goods and Services Tax (“GST”) on owners and operators of bridge clubs.

This brief covers the effects of GST on bridge club income streams, costs, accounting and other associated issues.

### **Awareness of GST**

The report assumes a basic understanding of the operation of a GST. Readers who do not have such an understanding should read Appendix A to gain an overview of the tax and terminology prior to reading the report.

The report has been developed based on the current GST legislation. As such, certain aspects of this report may change in the future.

## Registration

The effect of the GST on bridge clubs will depend to some extent on whether the clubs are registered for GST or not.

Registration is necessary for entities whose turnover is in excess of \$50,000 per annum (or \$100,000 per annum for non-profit bodies). Registration is optional for those entities with a turnover below these thresholds.

Given the above rules, it is highly likely that the ABF will be required to register for GST purposes.

Bridge clubs fall into three categories:

- Non profit making clubs with turnover < \$100,000 pa
- Non profit making clubs with turnover > \$100,000 pa
- Profit making, entrepreneurial clubs with turnover > \$50,000 pa

Profit making entrepreneurial clubs and the non profit-making clubs with turnover greater than \$100,000 pa will also be required to register for GST. Non profit-making clubs with turnover less than \$100,000 pa will not need to register for GST.

Bridge clubs that are not registered for GST will not make taxable supplies and will therefore not be required to account for GST on the supplies made to their members in the course of their enterprise. GST is only payable on taxable supplies.

However, bridge clubs that are not registered, will be unable to recover any input tax paid on their purchases. This is because, entities are entitled to input tax credits only to the extent that they make creditable acquisitions. Entities must be registered to make creditable acquisitions.

These rules for registration should be borne in mind in mind when reading the effect of GST on owners and operators of bridge clubs.

## **Accounting systems**

The ABF and bridge clubs will need to ensure that their current business systems are GST capable. The impact on accounting systems is detailed at Appendix B.

## **Bridge Club income streams**

### **Membership income**

Most clubs offer memberships to their players. This membership will normally entitle the member to a lower table money as well as regular club newsletter.

#### **Impact of GST**

Memberships will be a taxable supply by the bridge club operator to the member. The club operator would be liable to account for GST on this taxable supply. The taxable supply would be the membership and the newsletter. GST will be charged to the member.

If these memberships span the GST implementation date of 1 July 2000, the club operators will be liable for the GST on the portion of the membership occurring after 1 July 2000 unless this can be recovered from the members.

### **Table money**

The most regular form of income for bridge clubs is a charge nominally called 'table money'. This is a charge that is levied on players who attend and use the facilities of a bridge club.

Table money covers the cost of use of the premises; the cost of providing a director; and all of the ancillary costs associated with providing a club service to players.

#### **Impact of GST**

Table money will be seen as consideration for a taxable supply by the bridge club to the member. The taxable supply would be the provision of bridge club facilities and entry to the club. Bridge clubs will need to charge bridge club members GST on their existing fees.

Bridge club operators will be liable to account for the GST, on their taxable supplies, to the Australian Taxation Office ("ATO"). Club operators will be required to remit 1/11<sup>th</sup> of the consideration (or table money) for the supply, to the ATO.

Bridge clubs will, however, be entitled to claim input tax credits on any creditable goods and services they make in relation to carrying on their enterprise. These are costs associated with providing the service to players.

In order to be able to claim a GST credit, bridge clubs will need to obtain a GST invoice from a GST registered supplier.

There is a need to ensure that bridge club systems will be able to identify those suppliers who are registered for GST and those who are not registered. This is necessary to ensure that GST input credits are not claimed for supplies from unregistered suppliers.

### **Congress income**

Many bridge clubs run annual special events known as congresses. These are one off events along the following lines - participants pay an entry fee which may or may not include lunch. The entry fee usually includes post tournament drinks and nibbles.

The organisers either use their own clubs or rent suitable premises. The income is utilised to pay the following - prize money; directors fees (mostly paid as sub contractor); lunch (where included); pre-event advertising; other operating costs of holding the event and profit (if any).

### **Impact of GST**

Club operators will be required to account for GST on entry fees to congresses, as they will be regarded as consideration for a taxable supply made by the club operator in the course or furtherance of their enterprise. Bridge clubs will need to charge bridge club members GST on their existing entry fees.

Club operators will be required to account for the GST on all taxable supplies in their GST return. Club operators will, however, be entitled to claim input tax credits for any creditable acquisitions made in relation to these tournaments, as they are in the course of carrying on their enterprise. Examples of such creditable acquisitions include pre-event advertising and other operating costs of holding the event.

### **Kitchen income**

The kitchen income generated by bridge clubs generally falls into one of three types:

- clubs which supply free tea, coffee and biscuits to members;
- clubs which sell tea, coffee and snacks to members; or
- clubs which include lunch and drinks within the table fees.

Most clubs purchase their supplies through the local supermarket or, in some rare instances, a wholesale supply company. In addition, clubs may also franchise out the kitchen operations. This is where the operator pays the bridge club a rental income for the right to operate the kitchen as their own business.

### **Impact of GST**

Supplies of free tea, coffee and biscuits to members would not fall within the ambit of GST, as there is no consideration involved.

Sales of tea, coffee and snacks to members would be taxable supplies as they are for consumption on the premises from which it is supplied. GST is payable on these taxable supplies and bridge clubs will need to account for this GST to the ATO.

Table fees will be consideration for a taxable supply by the bridge club to the members, as covered under the above heading on 'Table money'.

Provision of lunch and drinks would be a taxable supply, as once again they are for consumption on the premises from which it is supplied. GST would be payable on the value of the taxable supply to members, for the use of the facilities of the club, and the inclusion of lunch and drinks.

### **Lesson income**

Most bridge clubs conduct bridge lessons for members. The clubs engage a teacher on a salary or sub-contract basis and charge a fee for the lessons and textbooks (which they will purchase).

## **Impact of GST**

The impact of the GST on bridge clubs regarding lesson income, will depend on whether teachers are engaged on a salary or sub-contract basis.

### *Teacher- as a sub-contractor*

If a teacher employed by the club is a sub-contractor, they will need to consider whether they are required to be registered for GST purposes. The teacher will be supplying a service to the club for which they receive consideration in the form of fees. If the teacher is registered or required to be registered (turnover >\$50,000 pa), then their services to the club will be a taxable supply. GST will be payable by the club on the teaching fees.

However, the extent to which the teacher (sub-contractor) will be able to pass on the cost of the GST to the club, will depend on whether their existing contract terms and conditions allow for this.

If the teacher is a sub-contractor and registered for GST purposes, they will need to bear in mind that any other supplies that they make under any other businesses will also be subject to GST. The decision on whether to register will depend on the individual circumstances of each sub-contractor.

If the teacher (sub-contractor) is not registered then they will not be able to recover any of the input tax incurred in their costs of carrying on their enterprise. If the teacher (sub-contractor) is not likely to incur significant costs then it may be preferable for them not to register for GST. Consequently, they would not be making taxable

supplies to the club, and the club would not have to pay GST on teaching fees.

### *Teacher- an employee*

In cases where teachers are engaged on a salary basis, there will be a taxable supply of the lesson by the bridge club to members. Club operators will be liable to account for GST on any supplies of textbooks to members, as they are taxable supplies made for consideration, in the form of fees.

## **Sale of bridge club supplies**

Some clubs purchase bridge supplies such as cards, books, gift items etc and sell these to their players on a 'for profit' basis.

## **Impact of GST**

Clubs will be entitled to claim input tax credits in relation to their purchases in carrying on their enterprise things such as cards, books and gift items). Sales of such items will be taxable supplies and club operators will need to account for the GST on them.



## **Bridge Club expenses**

### **Rent**

Most bridge clubs rent their premises from third parties pursuant to a commercial lease.

### **Impact of GST**

The provision of the club premises would be a taxable supply by the party leasing the premises to the bridge club. GST will be payable on the supply of the premises and the liability to account for this will fall on the lessor (or the supplier).

Lease agreements may need to be reviewed if they straddle the GST implementation date of 1 July 2000. Club operators will need to obtain confirmation from their landlords as to whether the lease agreements are covered by the GST transitional provisions. If the lease was entered into before 8 July 1999 (the date of Royal Assent of the 'A New Tax System (Goods and Services Tax Transition) Act 1999') the supply will be GST-free until 1 July 2005 or until there is a *review opportunity*. A review opportunity is an opportunity that arises under an agreement for:

- the supplier to under the agreement to vary the consideration directly or indirectly because of the imposition of GST; or
- the supplier under the agreement to conduct a general review, renegotiation or alteration of the consideration.

## **Director's fees**

### *Director employed as a sub-contractor*

If a Director of a club is a sub-contractor, they will need to consider whether they are required to be registered for GST purposes.

The Director will be supplying a service to the club for which they receive consideration in the form of fees. If the director (sub-contractor) is registered or required to be registered for GST, then their services to the club will be a taxable supply. GST will be payable by the club on the director's fees.

However, the extent to which the director (sub-contractor) will be able to pass on the cost of the GST to the club, will depend on whether their existing contract terms and conditions allow for this. A review of all subcontractor terms and conditions should be undertaken to determine who is liable to pay the GST to the ATO.

If the director (sub-contractor) is not registered, then they will not be able to recover any of the input tax incurred in their costs of carrying on their enterprise. If the director is a sub-contractor and registered for GST purposes, they will need to bear in mind that any other supplies that they make under any other businesses will also be subject to GST. The decision on whether to register will depend on the individual circumstances of each sub-contractor

If the director (sub-contractor) is not likely to incur significant costs and turnover is less than \$50,000pa, then it may be preferable for them not to register for GST. Consequently, they would not be making taxable supplies to bridge clubs so they would not charge GST on their fees.

. Director – an employee

If a director of a club is employed on an employee basis, then director's fees paid by the club will not be subject to GST.

### **Purchase of kitchen supplies**

Clubs will generally purchase their kitchen supplies from local supermarkets.

#### **Impact of GST**

Club operators will be entitled to claim input tax credits on their purchases in respect of carrying on their enterprises.

### **Purchase of consumables – pads, pens, scoresheets etc**

Clubs also purchase items required to operate the club such as pens, pads, bidding slips, toilet supplies, playing cards, boards used for tournaments, small appliances <\$300.

#### **Impact of GST**

Club operators will be entitled to claim input tax credits on their purchases in respect of carrying on their enterprises.

According to *draft* regulations, where a supply of goods or services is valued at less than \$50 the supplier will not need to provide a tax

invoice for the recipient (in this instance, club operators) to claim an input tax credit for their acquisition.

### **Affiliation fees**

Affiliated clubs pay an annual affiliation fee to the ABF as well as, in some instances, the state associations, based on their number of members.

#### **Impact of GST**

Annual affiliation will be a taxable supply by ABF or state association to the clubs. GST will therefore be payable on this supply.

ABF or state associations will need to account for the GST on these supplies to the ATO. Club operators will be entitled to input tax credits in relation to these annual affiliation fees (if they are GST registered).

### **Masterpoints**

Tournament players 'earn' masterpoints based on their performance in tournaments run by the clubs in which they play. The ABF issues these masterpoints. The bridge club is then billed by the ABF for these masterpoints based on the number that they issue.

#### **Impact of GST**

There will be taxable supply by the ABF, of the issuing of points, to bridge clubs. ABF will be liable for this GST to the ATO.

Club operators will be entitled to input tax credits in relation to their creditable acquisitions of these points.

It is our understanding that members are charged for masterpoints via their table fees or membership fees. In this case, GST is added on the value of the taxable supply, (as per the discussion under table money) which will now include a component covering masterpoints. Club operators will need to account for this GST. Members will not be able to recover the cost of the GST to them, unless they are registered.

### **Championship entry fees**

Clubs often run qualifying events for State and National championships. Where players qualify for further stages the club either meets their entry fees to those later stages out of income that has been generated by the qualifying event; or require the players to pay their entry fees themselves to those later stages.

### **Impact of GST**

Clubs will be entitled to input tax credits in relation to entry fees paid to the ABF on behalf of members. The supplier of the entry to the tournament, for example the ABF, will be liable for the GST on the entries that it supplies.

Where players are required to pay, their entry fees will increase as a result of the GST and players will not be entitled to input tax credits, in so far as they are not registered for GST. In this case, club operators will need to account for the GST on entries to the ATO.

### **Prize money**

It is our understanding that there will be no GST payable on prize money, as there is no taxable supply involved. The GST liability will fall on the club operator in relation to the entry fee to congresses, as mentioned above.

A point to consider is that it may be more advantageous for Bridge Clubs to award prizes in the form of goods rather than money as this would enable greater input tax recovery.

Club operators will be entitled to claim input tax credits in relation to the cost of purchasing goods that they award as prizes, as the goods would be a creditable acquisition incurred in the course of carrying on their enterprise. No input tax credits will be allowed in relation to the awarding of prizes in the form of money. With greater input tax recovery, club operators could choose to award prizes of greater value, in the form of goods, than if they awarded prize money.

The ABF and Bridge Club operators may want to consider applying to the ATO for a ruling, so that their activities fall within the ambit of Division 126 on gambling. This would have the result that Bridge Club operators would only be required to account for GST on the net amount of the *total amount wagered*, or entry fees, and the total monetary prizes, rather than the full value of the congress entry. However, any other implications of being classified as making gambling supplies will need to be considered and evaluated.

## **Non monetary prizes**

Clubs sometimes award prizes in the form of trophies, books or other prizes.

### **Impact of GST**

Club operators will be entitled to claim input tax credits in relation to the cost of purchasing goods that they award as prizes, as the goods would be a creditable acquisition incurred in the course of carrying on their enterprise.

## **Training**

Some clubs pay for their staff to be trained as tournament directors' etc.

### **Impact of GST**

Where staff are trained externally and clubs are charged for this, there is likely to be a taxable supply from the trainer to the clubs. Clubs should be entitled to input tax credits in relation to training fees for their staff.

## **Operating expenses**

Clubs have operating expenses outside of the above including:

- accounting and audit;

- administrative salaries;
- advertising;
- bank charges
- cleaning, electricity, Internet, office stationary, phone, postage; repairs, subscriptions, workers and general insurance.

### **Impact of GST**

Club operators will be entitled to claim input tax credits in relation to most of the operating expenses outlined above, provided they are creditable acquisitions.

Salaries to employees do not fall within the ambit of GST.

## **Bank charges**

In general, GST will not be payable on the operation of bank accounts. The majority of supplies made in relation to bank accounts will be input taxed.

## **Other issues**

ABF takes out a public liability insurance policy on behalf of its constituent members.

Players receive airfare and accommodation grants for interstate and overseas representation

## **Impact of GST**

On the assumption that clubs are named as insured parties on insurance policies, so that the supply of insurance is direct to them, the analysis is as follows:

There is a taxable supply, from the insured entity to the insurer, when an insurance claim is made under Division 78. When a claim is made, the club will be liable to account for the GST on it to the ATO.

There may be a need to review insurance arrangements with the insurer so that they provide a sufficient payout to cover the output tax liability of the insured entity.

Insurance premiums will be subject to GST. All other things being equal, the insurance premium should increase by 10 per cent (the amount of the GST), however it should not also be increased to cover the GST on the payout. This is due to the fact that the insurance company will be able to recover the GST on the claim via input tax credits.

Grants received by players, for example covering airfare and accommodation, will not be consideration for a taxable supply. For GST to be payable there needs to be a taxable supply. In this case players are not making taxable supplies to clubs, grants are not likely to fall within the ambit of GST.

## **Appendix A - GST Legislation Overview**

### **Indirect tax reform – what does it entail?**

The GST is a broad based indirect tax which will replace the wholesale sales tax “WST” and a number of State indirect taxes – principally stamp duties, FID and Debits Tax.

Broadly speaking, the GST is a tax on private consumption in Australia. Generally the GST will not apply to consumption outside Australia. The GST taxes the consumption of most land, goods, services and anything else in Australia, including things that are imported.

This is achieved by:

- imposing tax on supplies made by entities registered for GST; but
- allowing those entities who are GST registered to offset the GST they are liable to pay on supplies they make against input tax credits, for the GST that was included in the price they paid for their business inputs.

GST is a tax on a supply or importation of anything, except to the extent that the supply or importation is input taxed or GST-*free*.

### **What is taxable?**

A supply is taxable if it is made by a person who is registered or required to be registered and the supply is:

- for consideration; and

- made in the course or furtherance of an enterprise carried on; and
- is connected with Australia.

The definition of supply is very broad and includes:

- a grant assignment or surrender of real property;
- a dealing with any right;
- the entering into or release from an obligation to do something, to refrain from an act or to tolerate an act or situation.

### **What is the requisite nexus between the supply and the enterprise?**

To be a taxable supply it must be made in the course or furtherance of an enterprise.

An enterprise is an activity or series of activities done:

- in the form of a business;
- in the form of an adventure or concern in the nature of trade; or
- on a regular or continuous basis by way of leasing, licensing or granting of an interest in property.

An enterprise will also include activities conducted by charitable or religious institutions, income tax deductible funds or the Government.

An enterprise will not include an activity or series of activities conducted by an employee for an employer.

### **What is exempt?**

GST-free and input taxed supplies are not subject to GST.

Where a supply could be both GST-free and input taxed then the GST-free classification will override the input taxed classification.

### **What is creditable?**

A registered person is entitled to input tax credits for creditable acquisitions.

A creditable acquisition is anything acquired solely or partly for a creditable purpose if:

- the supply to the recipient was a taxable supply; and
- the recipient was liable for the consideration payable for the supply.

An acquisition is made for a creditable purpose if it is made in carrying on an enterprise.

### **What is not creditable?**

Credits will not be available for acquisitions that relate to input taxed supplies or acquisitions made for private or domestic purposes.

Input tax credits are not available for a number of expenses, which are generally non-deductible under the income tax law – for example:

- recreational club expenses;
- expenses for a leisure facility or boat; or
- entertainment expenses.

## **What do the exemptions cover?**

### *GST-free supplies and services*

GST-free is the ideal result. It means that:

- GST is not payable on the supply; and
- The supplier remains entitled to input tax credits.

The following supplies will be GST-free:

- exported goods, services and other things; health; some food; education; religious services; charitable activities; water and sewerage; international transport; child care; subdivided farm land; precious metals; going concerns; grants of freehold or similar interests by governments of land; and cars for use by disabled people.

### *Input taxed supplies*

Input taxing means that:

- GST is not payable on the supplies; but
- the supplier is not entitled to input tax credits for acquisitions that relate to such supplies.

The following supplies will be input taxed:

Financial supplies; residential accommodation; the sale of used residential premises; and the supply of precious metals, which are not GST-free.

## **What is payable?**

The amount of GST on a taxable supply is 1/11th of the consideration for the supply.

The 10% GST rate is applied to the tax exclusive amount of the consideration for the supply. Consistent with other VAT/GST jurisdictions, the tax is included in any price that is quoted for a taxable supply.

## **Who can register?**

Entities whose enterprises have a turnover in excess of \$50,000 per annum in aggregate (\$100,000 for non-profit bodies) will be required to register for GST purposes. Registration is optional for entities with a turnover below these thresholds.



### **What are the accounting periods?**

Registered entities for whom annual turnover is \$20 million or more will be required to lodge monthly returns with the Commissioner.

Registered entities for who annual turnover is less than \$20 million have a choice whether to lodge monthly or quarterly. Should they choose to lodge quarterly, the period ends are 31 March, 30 June, 30 September and 31 December. However, both monthly and quarterly remitters may apply to have their period end dates changed provided that the new date is no more than 7 days either before or after the standard end date.

In certain cases, the Commissioner may determine tax periods other than monthly tax periods for entities who meet the tax period turnover threshold of \$20 million. For this to occur, the entity must apply to the Commissioner to make a determination specifying the tax periods that the entity may use. The tax periods that are requested must be in accordance with the entity's commercial accounting practice. It is required that there be 12 complete tax periods in a year for GST purposes. A GST return must be lodged on or before the 21<sup>st</sup> day of the month following the end of the tax period.

### **What are tax invoices?**

When making a taxable supply, a registered entity will be required to issue a tax invoice if requested to do so by the recipient.

A tax invoice must show the ABN of the supplier, the price of the supply and any other information that may be required. Such tax

invoices are required when claiming input tax credits. However, a tax invoice is not required where the value of the supply is \$50 or less.

The Commissioner can determine that the recipient of a taxable supply may issue a tax invoice on behalf of the supplier. This procedure can be used for commissions, rebates, royalties and similar payments.

### **What is attributable to tax periods?**

The GST on taxable supplies is attributable to the tax period in which any of the consideration is received or, if earlier, an invoice is issued.

### **Payments and refunds**

Registered entities that have an annual turnover of \$20 million or more are required to lodge all returns and make all payments electronically.

Where the entity is required to make a payment to the Commissioner, it must do so on or before the 21<sup>st</sup> of the month following the end of the tax period.

Where registered entities are entitled to a refund, the legislation imposes a requirement on the Commissioner to make payment of that refund within 14 days of lodgement otherwise interest is payable.

## **GST groups**

Entities (companies and certain partnerships and trusts) with at least 90% common ownership will be able to form a GST group with the approval of the Commissioner.

One member must be nominated to deal with the GST liabilities and entitlements of the group. That member is liable for GST payable and entitled to input tax credits. However, in certain circumstances GST on importations is payable by the actual company that made the importation.

Importantly, a supply made by one member of a GST group to another member is not treated as a taxable supply. Similarly, an acquisition from another member of the same GST group is not treated as a creditable acquisition. There is therefore no requirement to evidence these transactions with invoices for GST purposes.

Non-resident companies may be a member of a GST group however the representative member must be a resident of Australia.

## **Dealing with associates**

Where there is a dealing with an associated person and the supply is either without consideration or for inadequate consideration, the value of the supply is the GST exclusive market value.

However these rules do not apply:

- if the associated entity is registered or required to be registered; or

- the supply to the associated entity is solely for a creditable purpose.

The wide definition of 'associate' in section 318 of ITAA 1936 is adopted.

## **Offshore supplies**

In certain cases, supplies (of anything other than goods or real property) taking place outside Australia are treated as taxable supplies. This will be the case where the recipient makes the acquisition for the purpose of an enterprise carried on in Australia, but not solely for a creditable purpose.

## **Adjustments for changes in the use of the supply**

An adjustment for changes in the use of a supply must be made where the extent to which an acquisition or importation is used for a creditable purpose changes during an adjustment period.

If the GST exclusive value of the supply is between \$1,000 and \$5,000, two comparisons between the original purpose and actual use will be made each year for the two years after the acquisition was made.

For example, if an asset costing \$8,800 was purchased in July 2000 and it was expected the asset would be used 100% in business the full \$800 input tax credit would be claimed.

The first adjustment period would end on 30 June 2002. If the use of the asset over that period had only been 80% for creditable business purposes, then there would be a GST adjustment to add-back 20% of the GST credit previously claimed. This means \$160 would be added back to the GST return for the period ended 30 June 2002.

Where the asset is valued between \$5,000 and \$500,000 the adjustment periods will last over 5 years with the first adjustment period commencing 12 months after the acquisition was made. Where the acquisition was for \$500,000 or more, the adjustment period extends to ten years.

If an asset is always used 100% for creditable purposes there would be no adjustment required.

### Exports

- The export of goods will generally be GST-free subject to the supplier exporting them from Australia within 60 days after the *earlier* of:
  - the day on which the supplier receives any consideration for the supply; or
  - the day on which the supplier provides an invoice for the supply (any document notifying of an obligation to make a payment is sufficient).
- According to current amendments, there are some requirements on the supplier for the supply to be GST-free. The goods will be treated as exported from Australia if:

- the supply is made to an entity that is not registered to be registered;
- that entity exports the goods from Australia;
- the goods have been entered for export within the meaning of s113 of the Customs Act 1901;
- the goods have not been altered in any way (other than preparation necessary for export) before being exported; and
- the supplier holds sufficient documentary evidence to show that the goods were exported.

- If the consideration is provided on an instalment basis, the supply will be GST-free if the supplier exports the goods from Australia within 60 days after the *earlier* of:
  - the day on which any part of the final instalment is received; or
  - the day the supplier provides an invoice for the final instalment.
- Appropriate records must be kept to verify the export and when it was made. Such records may include:
  - Airway bills;
  - Bills of lading;

- Evidence from the Australian Customs Service that the goods were exported; or
- Evidence from the customs authority of the country to which the goods were exported that the goods arrived in that country from Australia.

In general, exports of things, other than goods or real property, will also qualify as being GST-free subject to conditions such as whether the recipient is a non-resident or whether the services are being provided in respect of goods situated in Australia.

### **Imports**

The GST is payable on an importation of goods (excluding money) into Australia. An importation is made if the goods are entered for home consumption (as defined in the Customs Act). Special rules apply for certain goods, such as the personal effects of passengers and crews.

The GST on an importation is payable at the time of the importation but the Commissioner can allow further time in which payment can be made. Deferred payments will allow importers to offset their input tax credits on imports against their GST due on those imports. For example, in New Zealand, the GST liability is deferred 28 days from the time of importation of the goods. In respect of the Australian legislation, there is provision for similar deferral of the GST liability for imported goods. This provision will be contained in the Regulations and we will advise of the deferred period when the Regulations are released.

The owner of the goods at the time of importation (whether or not registered for GST) is liable to pay the GST.

The GST is imposed on the CIF value of the goods (ie. the imported price plus customs duty, insurance and freight). If the goods have previously been exported for repair or renovation, the GST is imposed only on the value of the repair or renovation plus customs duty, insurance and freight. Certain importations of goods are not taxable. These include the importation of GST-free or input taxed supplies, ship and aircraft stores and goods imported by passengers and crew within the existing customs duty concession limits.

Owners of imported goods are entitled to an input tax credit for GST payable by them on importation if

- they are registered; and
- the goods are imported in carrying on the owner's enterprise.

An input tax credit is not available to the extent that the goods are imported to make an input taxed supply (subject to a de minimise rule for financial supplies) or for private or domestic purposes.

## **Appendix B – Impact on accounting systems**

The impact of GST on the ABF and bridge clubs business systems must be assessed as early as possible.

Under a GST, systems will need to adopt an approach whereby GST is recorded separately from the tax exclusive value of sales and purchases, and adjustments will have to be incorporated into computerised accounting systems to accommodate the following:

- the introduction of a GST clearing account which would record GST collected or collectable on revenues and also record GST paid or payable on expenditures.
- identify supplies on which GST has been charged.
- identify purchases on which GST will be paid.
- identify credit notes/debit notes in which there is a GST component.
- accommodate future changes in the GST system including future changes to the GST rate.

For accrual accounting, input tax credits will be claimable in the period when the supplier's invoice is received even though the amount may not have been paid.

This requires that any invoices be quickly entered into the accounting system to ensure that input tax credits are claimed as soon as possible. The accounting policies and procedures with respect to purchases

should be reviewed to ensure that the purchasing system is recording payables as soon as possible.

### **Rationale**

In order to complete a GST return, systems will have to support the following requirements:

- GST (including ABN) reflected on all invoices issued and received within the GST period (or payments received if earlier than invoice).
- Lodgements of GST return on the 21<sup>st</sup> of each quarter.
- Allowances paid to employees and expenses reimbursed to employees.
- Bad debts written off on which GST was charged.
- Credit notes and the GST component thereof.
- Income tax non-deductible items because such amounts do not qualify for input tax credits.
- Purchases of second-hand property for deemed input tax credits.
- Bad debts recovered on which a GST credit was claimed.
- GST paid on any purchases of capital equipment.
- GST collected on any sales of capital equipment.

- Invoices issued which do not charge GST because the supplies are either GST-*free*, input taxed or for no consideration
- Invoices received (or payments made) for items on which GST has not been charged to the business because the items are GST-*free* or input taxed or if the supplier is not registered.
- GST paid on importation.

### **Factors to be considered**

A full review of all transactions needs to be undertaken, followed by detailed analysis to determine the current systems' ability to be modified to address the GST issues previously identified, however, as a minimum the following changes will need to be made to core systems:

#### ***General Accounting principles***

Income and expenses will need to be recorded net of GST (whether they are of a capital or revenue nature). Whereas debtors and creditors will need to be recorded gross.

- Depreciable assets to be valued at tax exclusive value.

#### ***General Ledger***

A GST control account will need to be set up in the General Ledger to capture the GST postings on purchasing and sales transactions. A reconciliation report will be needed to identify GST invoiced, collected and remitted. This will need to be supported by an audit trail

identifying those transactions contributing to the GST control account balance.

#### ***Accounts Payable***

The accounts payable system will need to be amended to capture the GST on purchases.

#### ***Sales***

In addition to the production of tax invoices, invoicing systems will need to be amended to apply GST, except for those supplies for which there is no consideration- as is likely, for example, for those products which are provided as free samples, or are otherwise GST-*free*. Essentially, each product or category of product will need to be identified as to whether GST should be charged.

#### ***Transitional issues***

Credit notes issued for returned goods for goods delivered prior to the introduction of GST, will not include GST. During the transitional period, it will be necessary to be able to identify the original invoice date for goods for which a credit is being issued and perform the GST calculation accordingly. A similar situation will apply with supplier credit notes relating to rebates for goods delivered prior

## **Appendix C – Required details for GST invoice**

*Draft* regulations issued by the Australian Taxation Office stipulate that a tax invoice must include where:

### **Price is \$1,000 or more**

- a) the ABN of the supplier;
- b) the price for the supply;
- c) the words ‘tax invoice’ stated prominently;
- d) the date of issue of the tax invoice;
- e) the name, or trading name, of the supplier;
- f) the name of the recipient;
- g) the address or the ABN of the recipient;
- h) a brief description of each thing supplied;
- i) the quantity or volume of the thing supplied;
- j) the statement ‘the total price includes GST for this supply’, or alternatively
- k) the amount, excluding GST, payable for the taxable supply; and
- l) the amount of GST payable on the taxable supply.

### **Price is less than \$1,000**

The tax invoice for that supply must contain the information stipulated above. However, item (f), (g) and (i), may be omitted from the tax invoice.

### **Recipient created invoices**

Where the supply is for a taxable supply, the same disclosure items apply with the following substitutions:

- the words ‘recipient created tax invoice’ (instead of ‘tax invoice’) stated prominently; and
- the statement: ‘the total price includes GST payable by the supplier’.

In the alternative to the last item, the following may be included instead:

- the amount, excluding GST, payable for the taxable supply;
- the amount of GST payable on the taxable supply; and
- the statement: ‘The GST shown is payable by the supplier’.