

Local Government Association
of South Australia

GST Implementation Manual



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GST Implementation Manual

Foreword

In November last year I had the pleasure of launching the Association's GSTaware Program at a seminar attended by nearly 300 people from councils around the state. At that time I outlined the components of the program and stressed the importance of councils adopting a planned approach to their preparation for the new tax system.

This GST Implementation Manual has been developed as one of the key components of the GSTaware Program and provides the basis for the topics to be covered in the second round of workshops for council administration and finance staff to be held over the next few weeks. The Manual consists of two parts:

- Part A GST Overview
- Part B GST Implementation

Part A provides detailed information on the new tax system which councils need to be aware of as part of their preparations for the introduction of GST. Much of this information has already been covered in seminars, workshops and newsletters over the past few months, but has been included here as a ready reference.

Part B provides a guide to assist councils with the implementation process. It is as much about project planning as it is about the technical detail of GST. It offers a structured approach, which enables councils to deal with issues in a logical order and 'check them off', as they are resolved. The objective of the suggested approach is to trigger key actions which will ensure a comprehensive coverage of all council activities which are impacted on by the introduction of GST.

One of the key stages in becoming 'GST ready' is to know that transactions have been identified and processes and procedures adapted to ensure their treatment is GST compliant. The implementation process suggested in Part B of the manual will assist councils to achieve that goal.

I trust that you find the manual to be a valuable tool in your GST implementation process. Whilst it is not possible for it to cover every GST issue which may arise in every council, it should assist councils to identify the major issues and seek assistance where required. The manual will also be updated to include matters raised at the workshops and changes to the GST legislation as they are released by the Australian Taxation Office.

I would like to acknowledge the support of the Federal Government in providing the funding for this Manual as part of its GST Financial Assistance Program. It has enabled the Association to provide the comprehensive range of services included in its GSTaware Program at no cost to councils.



Mayor Brian Hurn OAM

President

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PART A - GST OVERVIEW

1. Overview of Tax Reform

The Government's Tax Reform package introduces enormous change to Australia's taxation system. By far the most critical change and the one subject to most media and public attention is the introduction of the Goods & Services Tax (GST). The impacts of GST will also attract the majority of our attention in this manual. However, tax reform is much more than a GST. It is just one of many proposed changes to be made. Local Government will be affected in some way by most, if not all of these changes. Some of the more notable are summarised below.

Wholesale Sales Tax

The most significant tax being removed as part of the tax reform program is the wholesale sales tax (WST). WST is a single stage tax, imposed primarily on the final wholesale sale of a product. It is a tax on goods only, not on services.

Local Government bodies currently claim WST exemption on the acquisition of most goods. However, WST incurred by suppliers of goods and services to Local Government bodies is embedded in prices charged for the supply of goods and services. For example, a supplier of gardening services currently pays sales tax on a range of goods used in carrying out that service, including motor vehicles, tools, computers and administration consumables. Therefore while Councils may believe the removal of WST may have no impact on them, it must be taken into account when considering the anticipated cost to them of goods and services.

Other Taxes to be abolished

Financial Institutions Duty (FID), the state government levy on deposits will be removed on 1 July 2001;

Bank Account Debits Tax (BAD) will be removed on 1 July 2005;

Stamp duties on marketable securities will be removed on 1 July 2001;

Removal of other business stamp duties has been deferred indefinitely.

Fringe Benefits Tax

Employers, from the 1999-2000 Fringe Benefits Tax ("FBT") year, are required to record the "grossed-up" value of most fringe benefits provided to individual employees on employee group certificates, where the sum of the taxable value of the benefits exceeds \$1,000 per employee.

This will apply to all employers who provide fringe benefits to their employees.

A "reportable fringe benefits amount" will first need to be disclosed on employee group certificates for the year ending 30 June 2000. The reporting periods for FBT and the preparation of group certificates will not be aligned, rather the fringe benefits amounts for disclosure on group certificates will be taken from the previous year's FBT return, i.e. the FBT return for the year ending 31 March 2000 will be used for determining the disclosure on 30 June 2000 group certificates.

Pay As You Go

From 1 July 2000, the introduction of the PAYG withholding system will effectively replace the existing payment systems, including the following:

PAYE (Pay As You Earn) which includes:

- Payments for Work and Services;
 - Payments to employees (salaries, wages, commissions, bonuses, allowances);
 - Payments to company directors;
 - Payments to Statutory and other office holders;
 - Return to work payments;
- Retirement payments, eligible termination payments (ETPs) and Annuities;
- Benefit and Compensation payments (Social Security, compensation and accident payments, etc);
- PPS (Prescribed Payments System);
- RPS (Reportable Payments System);
- Payments where TFNs are not quoted for investment income - deduction at a rate of 48.5% by the paying institution.
- Dividend, Interest and royalty payments to overseas residents (the existing foreign resident withholding tax system)

Australian Business Numbers

A major part of the reform of the tax system is the introduction of the Australian Business Number (ABN). The ABN is a unique identifier to be allocated to registered businesses to streamline communications with all levels of government on business matters. The ABN is an 11-digit number that can be used by businesses to deal with all of government. It is intended that the ABN will reduce compliance costs for business by reducing costs of reporting.

Any entity that is carrying on an enterprise in Australia is entitled to an ABN. Each local government entity will be entitled to obtain an ABN. The ABN must be obtained by an entity registering for GST. It will be used within the GST system to trace transactions and as such will need to be shown on any tax invoices issued by a local government entity. A tax invoice received by a local government entity must contain the supplier's ABN in order for the local government entity to claim an input tax credit.

A further benefit of the ABN is that it will make it easier for councils to determine whether service providers they engage should be treated as employees or contractors. If a council receives an invoice without an ABN it must generally withhold tax from the payment. If the invoice contains an ABN the council may treat the service provider as a contractor.

The ABN will be applied for at the same time as registering for GST.

Diesel Fuel Rebate

As part of the GST package, two mechanisms have been introduced. The first is an expansion of the currently existing Diesel Fuel Rebate Scheme, and the second is an entirely new Diesel and Alternative Fuels Grants Scheme.

The current rate of excise on diesel fuel is approximately 43 cents per litre. On 1 July 2000 this excise will be replaced by a reduced excise plus GST, which will result in a total tax that is virtually unchanged from the current level.

The GST that is imposed will be able to be claimed back by businesses as an input tax credit. Further, businesses that meet certain set criteria in relation to either the Diesel Fuel Rebate Scheme or the Diesel and Alternative Fuels Grants Scheme will also be able to claim a rebate up to the total amount of excise paid on the fuel. The combined rebate and input tax credit will mean that businesses will potentially be able to claim back the entire amount of tax paid on diesel fuel.

The extension of the existing diesel fuel rebate for off-road use involves the following changes:

- The current partial rebate will be increased to a full rebate for off-road use of diesel fuel in mining operations, agriculture, fishing operations, private residences, hospitals, nursing homes, aged persons homes and private residences, and for the use of diesel fuel in the manufacture of explosives (forestry activities will only be entitled to a partial rebate).
- A full rebate will also be available to eligible businesses in the rail transport and marine industry sectors. There is currently no rebate available at all for these activities

The Diesel and Alternative Fuel Grants Scheme is an entirely new scheme which will provide a grant for certain on-road transport activities. The grant will apply to diesel fuel as well as compressed natural gas, liquefied petroleum gas, recycled waste oil, ethanol, canola oil, and other fuels specified by regulations.

Luxury Car Tax

Under our current wholesale sales tax ("WST") system, luxury cars are subject to a tax rate of 45% to the extent that their value exceeds a certain threshold limit. As a result of the introduction of the 10% GST and the abolition of sales tax, these cars would dramatically fall in price. The Government introduced a luxury car tax ("LCT") of 25% calculated on the value above that threshold (currently \$55,134) with the stated aim of improving fairness within the tax system. The aim of the tax is therefore to ensure that the value of luxury cars will fall in price by only about the same amount as a car below the luxury car tax threshold.

There will be no specific exemption from luxury car tax for Government entities and unlike the GST no credit will be available for LCT paid in normal circumstances.

Wine Equalisation Tax

WST is currently imposed on 'wine' at a rate of 41%. To prevent the price of wine falling dramatically after the removal of WST, the government will impose a WET on wine at a rate of 29% upon implementation of the GST.

The WET is designed to operate in a similar manner to the WST system. It is aimed primarily at sales at the wholesale level but also applies to cellar door sales or product applied to the manufacturer's own use in some circumstances.

2. Overview of GST

Concept of the GST

The Federal Government has enacted a goods and services tax through the *A New Tax System (Goods and Services Tax) Act 1999* ("the GST Act") and various other supporting Acts, replacing wholesale sales tax ("WST") and a number of indirect State taxes.

The GST will take effect from 1 July 2000 and is imposed at a single rate of 10% for taxable supplies.

The GST is a broad-based consumption tax, which aims to tax "private final consumption expenditure".

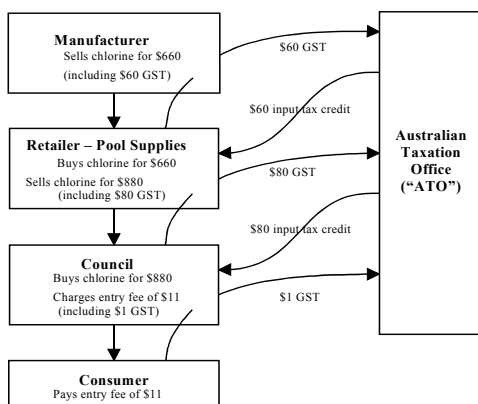
It is important to note that Local Government will be subject to the GST regime like any private sector enterprise. Whilst there are issues that may be specific to Local Government, the GST Act itself does not distinguish between entities operating in the private or public sectors. This is quite different from the operation of the current WST system, which has specific exemptions for goods acquired by Commonwealth, State and Local Government bodies.

How does the GST work?

The GST is essentially a "value added tax". The GST is paid or remitted based on the value added at each step along the chain of transactions involving the goods or services until the consumer is reached. Registered entities making taxable supplies will receive an "input tax credit" for the GST paid on inputs purchased. Overall, it is the consumer who ultimately bears the cost of the GST; ie the private consumer does not get an input tax credit for GST paid by them for a taxable supply.

It is important to realise that GST is not a tax on Local Government, although Local Government may act as tax collectors! GST is generally a tax on the ultimate private consumers of taxable goods and services provided by Local Government.

The following diagram and discussion outline the basic workings of a GST by using a simple example of a chain of supplies leading to a sale or supply to an end-consumer. In this example, the end consumer is a person paying an entry fee for using swimming pool facilities provided by a Council.



Chlorine manufacturer

The chlorine manufacturer sells chlorine to the retailer for \$660. This price includes the \$60 GST payable on the supply. The chlorine manufacturer must remit \$60 to the ATO. It is not out of pocket for the \$60 because the GST on the supply was included in the price charged to the retailer.

Retailer – Pool Supplies

As the retailer acquired the chlorine for the purpose of its enterprise (“creditable purpose”), it is entitled to an input tax credit from the ATO for the GST paid on that acquisition. The amount of the input tax credit is \$60. This is the amount of GST included in the price that it paid, so it is not out of pocket for the GST included in the purchase price.

The retailer packages the chlorine and sells it to the Council for \$880. That purchase price includes the \$80 GST payable on the supply. The retailer must remit \$80 to the ATO, but it is not out of pocket because it was included in the price charged to the council.

Council

Since the Council acquired the chlorine for the purpose of its enterprise (ie. operating swimming pools), it is entitled to an input tax credit for the GST paid on that acquisition from the ATO. The amount of the input tax credit is \$80. This is the amount of GST included in the price that it paid for the chlorine, so it is not out of pocket for the GST included in the purchase price.

The Council charges an entry fee of \$11 per person for the use of its swimming pools. That fee includes the \$1 GST payable on the supply. The Council must remit \$1 to the ATO, but it is not out of pocket because it was included in the price charged.

Consumer

The consumer is *not* entitled to an input tax credit for paying the entry fee because he or she did not make a “creditable acquisition”. Therefore he or she bears the \$1 GST included in the entry fee.

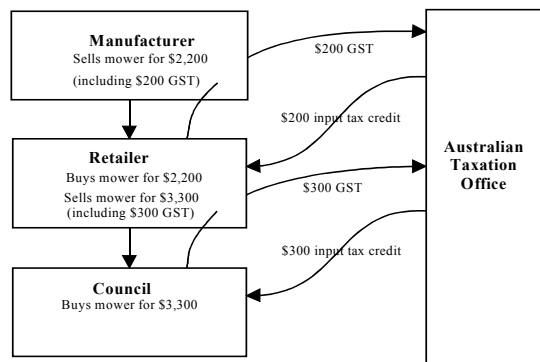
ATO

The ATO is paid a total of \$141 GST for the supplies by the manufacturer (\$60), the retailer (\$80) and the Council (\$1).

However, the ATO pays in total \$140 in input tax credits to the retailer (\$60) and the Council (\$80).

The difference between the amount the ATO is paid and the amount the ATO pays equals \$1, which corresponds to the GST that was included in the entry fee paid by the consumer.

In the above example, there is a clear transaction trail leading to the final consumption where GST is borne by the consumer. For Councils, the transaction trail to the ultimate consumer may not necessary be clear. This may be illustrated in the next example where a Council purchases a ride on mower to maintain its parklands.



In this example, the final consumer may be the public that will use the parklands. More importantly, however, the Council ultimately does not pay any GST. The net Revenue collected by the ATO is nil.

We understand that there is a misconception in some circles that Councils will have to bear GST. The above examples illustrate that, in general, GST will not be borne by Councils (there may be certain exceptions to this rule). However, there may be GST related costs, for example, implementation, administration, compliance and possibly cashflow.

Supplies

The GST is a tax on the supply of goods, services and other things (including real property and rights). A supply for GST purposes specifically excludes a supply of money except in very limited circumstances that are not relevant to local government. There are four broad categories of supply under the GST regime:

- Taxable supplies
- GST-free supplies
- Input taxed supplies
- Other supplies (outside GST regime)

Taxable Supplies

GST is payable on taxable supplies and taxable importations. An entity only makes a taxable supply if **all** of the following conditions are met.

An entity makes a taxable supply if:

- it makes a supply for consideration;
- the supply is made in the course or furtherance of an enterprise that the entity is carrying on;
- the supply is connected with Australia; and
- the entity is registered or required to be registered.

The supply is not a taxable supply if it is GST-free or input taxed.

Supply for consideration

Consideration is essentially something given in exchange for the supply. It is defined very broadly in the GST Act to include "any payment, or any act or forbearance, in connection with a supply of anything".

Consideration will include monetary and non-monetary payment. It also includes inducements to do something or to refrain from doing something, provision of information, payments by way of barter and payments by someone other than the recipient of the supply. Forgiving a debt in exchange for a supply would be consideration for the supply. Donations made for no material gain are not consideration for a supply.

We note that a payment by a government-related entity to another government related entity is not the provision of consideration if the payment is specifically covered by an appropriation under an Australian law. The Commissioner is to release a ruling to clarify the treatment of appropriations.

In the course or furtherance of an enterprise

An enterprise has also been defined very broadly. It includes activities in the form of a business, in the nature of trade, a licence or a lease and specifically includes activities by charities, religious institutions, Commonwealth entities, State entities and those established for a public purpose by or under a law of Commonwealth, State or Territory. Local Government bodies will be classed as enterprises.

Activities carried on as employees are specifically excluded from the definition of an enterprise. This would include activities by local government officers.

Connected with Australia

Goods that are delivered, made available, removed from imported into, or installed or assembled in Australia are connected with Australia.

Real property located in Australia will be connected with Australia.

A supply of services will be connected with Australia if the service is performed in Australia or it is supplied through an enterprise the supplier carries on in Australia.

An enterprise is carried on in Australia if it is carried on through a **permanent establishment** in Australia. Australia is defined to **exclude any external territory** but **includes installations** such as oil rigs.

Registered or required to register

Entities carrying on enterprises, other than non-profit enterprises, are required to register for GST if they have a current or projected annual turnover exceeding \$50,000. Non-profit entities must register if they carry on an enterprise and turnover exceeds \$100,000. Entities who carry on an enterprise but whose turnover is below these thresholds may choose to register. Appropriations under an Australian law are not included in turnover for registration purposes.

A Government entity, which includes a local government entity, may register for GST even if it is not an entity in its own right and is not carrying on an enterprise.

GST-Free Supplies

No GST is payable on the supply of GST-free supplies but the supplier is entitled to claim input tax credits on things acquired to make those supplies.

GST-free supplies include:

- Basic food for human consumption;
- Health;
- Education ;
- Child care;
- Exported goods and services;
- Religious services;
- Non-commercial activities of charities;
- Raffles and bingo conducted by charities;

- Water and sewerage;
- Going concerns;
- Certain supplies of transport and related matters;
- First supply of precious metals;
- Supplies through inwards duty free shops;
- Grants of freehold and similar interests by governments;
- Farm land; and
- Certain cars for use by disabled people.

Input Taxed Supplies

Again, no GST is payable on the supply of input taxed supplies, however the supplier is not entitled to claim input tax credits for the GST included in the price of the things acquired to make the supply.

The following are categories of input taxed supplies:

- Financial supplies;
- Residential rent;
- Sale of existing residential premises;
- Precious metals (after the first supply); and
- School tuckshops and canteens (may elect to be input taxed under certain conditions)

Creditable Acquisitions

The notion of “Creditable Acquisitions” is a vital part of the GST regime. The existence of creditable acquisitions is the reason that the GST is not a tax on business, but flows through to the end consumer.

Local Government is entitled to an Input Tax Credit on all creditable acquisitions. The amount of the input tax credit is equal to the amount of the GST included in the price paid for the acquisition. However, the amount of input tax credit is reduced if the acquisition is only partly for a creditable purpose.

You make a creditable acquisition if:

- You acquire anything solely or partly for a creditable purpose; and
- The supply to you is a taxable supply; and
- You provide consideration for the supply; and
- You are registered or required to be registered.

Acquisition

As with a supply, the definition of an acquisition is extremely broad and includes:

- an acquisition of goods;
- an acquisition of services;
- a receipt of advice or information;
- an acceptance of a grant, assignment or surrender of real property;
- an acceptance or acquisition of a right to requires a person to do, or refrain from doing anything;
- an acquisition of something that when supplied, was a financial supply.

Creditable Purpose

An acquisition made in carrying on an enterprise is generally acquired for a creditable purpose. An acquisition is not creditable to the extent that it relates to input taxed supplies or is of a private or domestic nature.

Where it relates partly to input taxed supplies or is of a private or domestic nature the acquisition is only partly for a creditable purpose.

Was a taxable supply

The acquisition will only be creditable if the supply was a taxable supply. The criteria for being a taxable supply are discussed above. If you request and are provided a tax invoice, you can treat the supply as being taxable. The rules for an invoice being a tax invoice will be discussed further later in the Manual

3. GST on Taxes and Levies

Division 81 of the GST Act states that the payment of any Australian tax, fee or charge is treated as consideration for a taxable supply. However, Government taxes, fees and charges will not be subject to GST where they are listed by the Federal Treasurer in Regulations.

The Treasurer's determination has now been released in draft form. The final Determination will be made as soon as it is formally agreed by notice from the States and Territories.

The broad principle used by the Treasurer in determining what should be excluded from the GST regime is that compulsory taxes and regulatory charges should not be subject to GST. However, items that are essentially fees for a service are considered properly subject to GST and therefore have not been included on the list.

The taxes and charges relating to local government that are not subject to the GST because they appear on the draft determination (and will presumably appear on the final determination) include:

- General and separate rates;
- Fees associated with regulation of care of persons in certain residential facilities;
- Impounding fees for animals and animal registration fees;
- Issue, transfer and renewal of licences, registrations and permits to undertake activities;
- Water, sewerage and drainage fees;
- Fees associated with the regulation of development, e.g., Application for Planning rules consent;
- Fees for applications and consents for road closures;
- Parking permit fees; and
- Compulsory charges for garbage removal.

Items not on the list and hence subject to GST include:

- Building Rules Consent Fees;
- Certificate of Occupancy Fees;
- Fees for use of public land;
- Swimming pool and tennis court fees;
- Parking fees;
- Cemetery fees (apart from permit fees), burial and cremation fees.

Further information on the Treasurer's Determination and a complete Division 81 list for South Australian Local Government can be found in LGA Circular 5.10.

4. Registration

GST REGISTRATION - AN OVERVIEW

The Requirement to Register

Under the GST legislation, an entity is required to register for GST if:

- It is carrying on an *enterprise*; and
- Its annual turnover is at least:
 - (a) \$50,000; or
 - (b) \$100,000 for non-profit organisations

All legal entities (Statutory Authorities, Corporations, Boards, Trusts etc.) will need to register separately if their annual turnover meets the thresholds.

Registration of Local Government Entities, that are not separate legal entities

Under the original legislation, there were no specific provisions enabling local government committees and other bodies to register separately. The GST legislation allowed these bodies to register as branches of the Council. However, a major disadvantage of this approach is that these branches could not form a GST group with other registered entities. The advantages of grouping are discussed below.

Recent amendments allow much more flexibility. They allow Local Government entities including councils, boards and committees to register separately even if they are not separate legal entities. Furthermore, Local Government entities and "Government related entities" may also form GST groups. In addition, it will still remain possible for a Local Government entity to use branches.

An "entity", for GST purposes can include:

A body corporate. A 'body corporate' can include trading and non-trading, profit and non-profit making organisations. A body corporate must be formalised under statute, in order for it to be a separate legal identity. Corporations Law companies are the most obvious example. Councils are established as bodies corporate under the Local Government Act.

Other unincorporated association or body of persons. An unincorporated association or body is not a separate legal entity. Instead, the individual members are individually liable for the actions of the body as a whole. A supply made by a member of the management committee of an unincorporated body in their capacity as a member of the committee is taken to be a supply made by the body, not by the member.

Not for profit associations. Unincorporated not for profit associations typically consist of a membership and a committee and a constitution or rule book specifying the members rights, privileges and responsibilities. Sporting associations and community groups are good examples of not for profit associations. These bodies will be required to register for GST where their annual turnover exceeds \$100,000.

Councils need to consider each "entity" and decide whether to register it in its own right and then whether to include it as part of a group, or to register it as a branch of council.

Are you required to be registered for GST?

The registration criteria for GST were outlined at the start of this section. It is anticipated that all Councils and most related entities will be required to be registered for GST.

There are several factors that an entity needs to consider in deciding whether to register for GST voluntarily, e.g.:

- A registered entity may be eligible to claim input tax credits on GST paid to suppliers;
- Entities that are registered for GST may be able to claim input tax credits on the GST charged;
- Businesses may be reluctant to deal with unregistered entities, as their prices will include embedded GST, which cannot be claimed back as input tax credits.

Registration for GST as a separate entity

Transactions between separately registered GST entities will be taxable, therefore the supplier is liable for GST on the supply. As a result, where separate registration occurs it may be necessary to review charges between those entities so that they are adjusted for GST. In most cases, input tax credits will be available to the registered entity paying the GST on the acquisition.

Each separately registered entity will have its' own ABN registration and lodge its' own BAS (unless grouped with other entities).

Registration for GST as a branch of another registered entity

Branching provisions may be most useful where a local government entity is part of another entity's registration and does not need to be separately registered in its own right.

The registration of a GST branch is only possible if the Commissioner is satisfied that the branch maintains an independent system of accounting, and can be separately identified by reference to the nature of the activities carried on through the branch, and the location of the branch. A disadvantage of branching is that a branch cannot form part of a GST group, unlike separately registered "government entities" which may become part of a GST group.

If an entity decides to register as a branch, it will charge GST on all taxable supplies made to other branches or entities, and claim input tax credits on all GST incurred. A branch will also be required to lodge an individual BAS, although the parent entity is ultimately responsible for the branches meeting their GST obligations. It is the turnover of the parent entity that is considered when determining the tax period, accounting basis and lodgement requirements of the branches.

Grouping with other registered entities for GST purposes?

Recent amendments to the GST Act allow local government entities (or government-related entities) to form GST groups in certain situations where they satisfy the membership requirements for a GST group.

A local government entity will satisfy the membership requirements for a GST group, or a proposed GST group, of government entities if:

- It is registered;
- It is not a member of any other GST group;
- It has the same tax periods applying to it as the tax periods applying to all the other members of the GST group or proposed GST group;

- It accounts on the same basis as all those other members; and
- All those other members are government entities (or government related entity).

Factors that need to be considered when deciding whether to form a GST group include:

Are the accounting systems complementary or consolidated?

Do the units act as separate business units or one whole?

Are there any statutory reasons for grouping or not grouping or is it a grouped entity for other tax obligations such as PAYG?

If a GST group is formed, one entity will be responsible for the lodgement of the BAS for the GST group. The nominated entity will be required to coordinate the collection of information from the other group members, and lodge the BAS with the ATO.

The nominated entity should be also registered for PAYG so that the group entities can offset any PAYG payable against any potential GST refunds on the BAS to the extent possible.

ABN Registration.

The ABN is a new identifier for Australian businesses. Any entity (including a Government entity) carrying on an enterprise in Australia may apply for an ABN. The ABN will also be the identifying number for GST purposes, and you will require an ABN to register for GST.

The proposed PAYG (Pay As You Go) system will require tax to be withheld from payments made to entities that do not provide an ABN on their invoice or related documentation on or after 1 July 2000. The withholding tax rate is 48.5%.

This requirement will result in additional administrative work for businesses that deal with entities that do not have an ABN.

At present, all councils should be considering which entities they will be registering for both ABN and GST purposes. The LGA has provided Proof of Identity documents for each council in South Australia. Individual councils will be responsible for providing this information for additional entities seeking registration (e.g., subsidiaries and regional subsidiaries).

The Australian Taxation Office (ATO) has commenced mailing out GST Registration Packs to all Councils listed by the LGA. Additional packs will also be available from other sources such as post offices and the Internet.

To ensure that registration for an ABN and for GST is processed by 1 July 2000 the application form must be lodged by 31 May 2000. However, we recommend that the application be lodged earlier to allow time to incorporate the ABN into the necessary documentation.

5. Cash Vs Accruals Accounting

Subject to certain conditions, entities can account for GST using either the cash or accruals basis. This section discusses which method is appropriate for your Council.

Which method can councils use?

The following entities may use the cash basis:

- Entities with “annual turnover” of no more than \$1 million. Turnover refers to the total revenue from all supplies made by your enterprise (excluding input taxed supplies and supplies for no consideration) for a twelve month period. For councils, turnover excludes the following:
 - rent received on residential properties;
 - interest received; and
 - general rates and other items of revenue listed by the Treasurer in his recent determination under Division 81, as discussed in Section 3.
- The cash basis can only be used if **both** current turnover and projected turnover for the coming twelve months are \$1 million or less;
- Businesses which use the cash basis for income tax purposes;
- Other entities which apply to the Commissioner of Taxation and are given approval to use the cash basis;
- Charities and non-profit organisations.

All other entities must use the accruals basis.

Attribution

Attribution is the term used in the GST law to describe the way you account for GST payable, input tax credits and adjustments in order to work out your net amount of GST for the tax period. GST payable, input tax credits and adjustments are attributed to tax periods rather than being remitted or refunded each time a taxable supply, creditable acquisition or adjustment is made.

The basic attribution rules set out when to account for GST payable on taxable supplies, input tax credits for creditable acquisitions and creditable importations, and adjustments. The rules differ depending on whether you account for GST on a cash or accruals basis.

Accounting for GST on a cash basis

Taxable supplies (ie, supplies by council)

If you account for GST on a cash basis, you attribute GST payable on a taxable supply to the tax period in which you receive consideration for the supply, but only to the extent that the consideration is received in the tax period. This means that if, in a particular tax period, you receive only part of the consideration for a supply, you attribute only that same part of the total GST payable to that tax period. For example, if you received 50 per cent of the selling price in the tax period, you only include 50 per cent of the total GST payable on the supply in that tax period.

Creditable acquisitions (ie, purchases by council)

If you account for GST on a cash basis, you attribute the input tax credit for a creditable acquisition to the tax period in which you provide consideration for the acquisition, but only to the extent that you provided the consideration in that tax period. This means that if, in a particular tax period, you have paid only part of the total consideration for an acquisition, you are entitled to only that same part of the input tax credit for the acquisition. For example, if you paid 50 per cent of the cost price in the tax period, you can claim 50 per cent of the total input tax credit in that tax period.

However, an input tax credit is not attributable to a tax period if you do not have a tax invoice for the acquisition when you lodge your Business Activity Statement ('BAS') for that tax period. An input tax credit may be claimed in the first BAS lodged after a tax invoice is received.

Creditable importations (eg, purchase of imports by council)

Treatment of imports is the same whether you account on a cash or an accrual basis. GST on taxable importations is payable to the Australian Customs Service when you make the importation, not to the ATO via the Business Activity Statement as with other GST payments. The input tax credit for the GST paid on the import is attributed to the tax period in which the GST is paid.

The Australian Customs Service is offering deferral of this payment, where certain requirements are met, to allow you to defer payment of the GST to coincide with your monthly GST payment to the ATO, when the related input tax credit is claimed. This will remove any negative cash flow effect.

Adjustments

Adjustments are necessary where subsequent events mean that the GST payable or input tax credit attributed in a previous tax period is incorrect.

Adjustments are either increasing or decreasing. An increasing adjustment increases your net amount for the tax period, while a decreasing adjustment decreases your net amount for the tax period.

Under the GST Act, an adjustment occurs when:

- A bad debt is written off;
- A supply or acquisition is cancelled;
- The consideration for a supply or acquisition is changed (for example, because of a volume discount);
- A supply becomes taxable or stops being taxable; or
- An acquisition becomes creditable or stops being creditable.

If you account for GST on a cash basis and the adjustment event requires you to provide additional payment, the adjustment is attributable to the tax period in which you make the payment. If you make only part of the payment in a tax period, you attribute only that part of the adjustment to that tax period.

When you have an adjustment that decreases your GST liability, you can not claim an input tax credit until you hold an adjustment note.

If you have an adjustment due to a change in creditable purpose for an acquisition, that adjustment is attributed to the period the adjustment is recognised.

Cashflow Impacts of using the Cash basis

The cash basis means the council receives the GST included in the sale price of taxable goods and services, before the GST must be paid over to the ATO. This has a positive GST cash flow impact. However, the payment of GST included in the supplier's price is also made before the council receives the input tax credit refund from the ATO. This has a negative GST cash flow impact. The negative impact on the purchase side may be outweighed by the positive sales side impact (depending on the

mix of taxable to GST-free sales) as sales are made throughout the month, but suppliers are generally paid towards month-end.

Accounting for GST on an accruals basis

Taxable supplies (ie, supplies by council)

If you account for GST on an accruals basis, you attribute all the GST payable on a taxable supply to the earlier of the tax period in which:

- any of the consideration for the supply is received; or
- an invoice for the supply is issued.

This means that you may have to account for GST payable on a supply before actually receiving payment for the supply.

Creditable acquisitions (ie, purchases by council)

If you account for GST on an accruals basis, you attribute all the input tax credit for an acquisition to the earlier of the tax period in which:

- you provide any of the consideration, or
- an invoice is received for the acquisition.

This means that you may be entitled to input tax credits before actually paying for the acquisition.

However, an input tax credit is not attributable to a tax period if you do not have a tax invoice for the acquisition when you lodge your BAS for that tax period. You attribute the input tax credit to the first tax period for which you have a tax invoice when you lodge your BAS.

Creditable importations (eg, purchase of imports by council)

The treatment of creditable importations is the same under the accruals basis as under the cash basis outlined above. GST on taxable importations is payable to the Australian Customs Service when you make the importation, not to the ATO via the Business Activity Statement as with other GST payments. The input tax credit for the GST paid on the import is attributed to the tax period in which the GST is paid.

The Australian Customs Service is offering deferral of this payment, where certain requirements are met, to allow you to defer payment of the GST to coincide with your monthly GST payment to the ATO, when the related input tax credit is claimed. This will remove any negative cash flow effect.

Adjustments

Adjustments are attributed to the tax period in which you become aware of the adjustment. However, an adjustment for a decreasing adjustment arising from an adjustment event is not able to be claimed until you have an adjustment note.

You attribute any adjustments that arise from bad debts to the tax period in which you become aware of the adjustment.

If you have an adjustment due to a change in creditable purpose for an acquisition, that adjustment is attributed to the period the adjustment is recognised.

Supplies and acquisitions made on a progressive or periodic basis

GST is attributed as if the relevant supply or acquisition is made up of separate supplies or acquisitions. These will correspond to the separate progressive or periodic components of the supply or acquisition. The basic attribution rules will then apply in respect of each separate supply or acquisition.

Cashflow Impacts of using the Accrual Basis

A council will not usually receive payment for a service at the time of issuing the invoice. Using the accruals basis, the GST will often be payable before the cash is received, creating a negative cash flow effect.

On the acquisition side, the input tax credit using the accruals basis is claimed in the tax period when the invoice is received by the council. As the input tax credit can be claimed before the payment is made the accrual method is likely to have a positive cash flow effect with regards to purchases.

Which method should a council use?

Many councils will be required to use the accrual method after considering the criteria listed above. Other councils will be able to choose either cash or accruals.

As many council revenues are GST-free, and most purchases are on account, the accruals method may give a better GST cash flow result for councils than the cash method. Provided the GST return is lodged early in the month, the net GST refund is received from the ATO **before** payment is made to the suppliers. Councils should also consider the following:

What is annual turnover? If it is expected to exceed \$1 million at some stage, you may wish to avoid having to change from one method to the other by adopting the accruals method from the start.

What are the usual terms of sale and purchase?

Can the accounting systems and processes handle the accruals method?

The choice of accounting method needs to be made before lodging an application for registration for the ABN and GST. Each council should review its own circumstances before deciding which approach to use.

Attribution of GST payable and input tax credits on supplies and acquisitions to which the GST Transition Act applies

GST is payable and an entitlement to an input tax credit arises only to the extent that supplies or acquisitions are made on or after 1 July 2000

The GST Transition Act sets out time of supply rules so that you can determine whether a supply or acquisition of goods, services, real property or any other thing is made on or after 1 July 2000.

If you make a supply for a period or progressively over a period, the supply is treated as if it is made continuously and uniformly throughout the period. This enables you to work out what part of the supply is made on or after 1 July 2000. A supply by way of lease or hire is a supply for the period of the lease or hire arrangement.

For supplies or acquisitions that you make on or after 1 July 2000, the basic attribution rules outlined above will apply.

However, for some supplies or acquisitions made on or after 1 July 2000, the receipt or payment of consideration, or invoicing, could occur prior to 1 July 2000. Under the GST Transition Act that consideration is taken to have been received or provided, or the invoice is taken to have been issued, in your first tax period after 1 July 2000.

6. Pricing Rules

The introduction of the GST will cause the prices of many goods and services to change.

The Government expects the “GST Exclusive” price of many goods and services to decrease, as a result of the various tax reform measures. As a result, the total price increase (after addition of GST) is expected to be less than 10%, in many cases.

The Australian Competition and Consumer Commission (“ACCC”) will monitor price levels over the GST implementation period to help ensure that business passes on the benefits of tax reform cost savings to consumers. The ACCC has released a statement of general principles on price exploitation.

Where businesses do not pass on the full benefit of cost savings this may constitute price exploitation. There are serious penalties for price exploitation: up to \$10 million for corporations and \$500,000 for individuals.

Action Required

Councils must determine their post-GST pricing strategy – taking into account all the relevant factors. This process must be documented as protection against potential penalties. The ACCC expects that businesses will be able to justify, in specific terms, any change in prices resulting from the New Tax System.

Be aware of the ACCC pricing guidelines, outlined below, and be able to discuss with suppliers and customers, where necessary.

The ACCC Guidelines (summary)

The ACCC Guidelines do not prevent business from adjusting prices to reflect GST, rather, it seeks to prevent over-recovery; to this end:

- Prices should be reduced to pass on the full effect of the tax reductions, as soon as tax reductions occur;
- Any increase in price based on the GST should include a full offset for other indirect tax reductions;
- No mark-up should be applied to the GST component of prices;
- Prices should reflect only actual, not anticipated, tax increases; and
- Businesses should not take the opportunity to increase the difference between cost and prices, in dollar terms (the dollar margin rule).

Potential Cost Changes

The cost of goods may be impacted by the:

- Reduction in the Wholesale Sales Tax (“WST”) rate of 32% to 22% on certain goods (29 July 1999), although this has little application to councils.
- Introduction of the GST (1 July 2000);
- Abolition of WST (1 July 2000). As councils currently enjoy Sales Tax concessions, the effect on costs may be limited to Sales Tax that would have been embedded within suppliers’ costs;
- Changes to excise on petrol and diesel and to the Diesel Fuel Rebate Scheme (1 July 2000);

- Introduction of a “Luxury Car Tax” (1 July 2000);
- Introduction of a “Wine Equalisation Tax” (1 July 2000);
- Abolition of bed taxes (1 July 2000);
- Abolition of state taxes on bank transactions (FID on 1 July 2001 and BAD on 1 July 2005; and
- Changes in net tax compliance costs.

Pricing Points

Where price changes are determined strictly as GST less cost savings, the resulting product prices may not be consistent with established product pricing points, e.g. \$1.99, rather than \$2.13. In this instance, the ACCC accepts that prevailing market practices regarding pricing points may be applied. However, where the prices of some products are increased to meet pricing points, other product prices should be decreased - repricing to pricing points should have a nil overall effect on net margins.

Recent comments from the Government suggest that any form of rounding up of prices will be disallowed, however more recent comments from the ACCC suggest that some rounding up will be acceptable providing no individual price increases by more than 10%. We are currently attempting to clarify with the ACCC how this policy will apply to low value items, such as photocopies. Further information will be provided in due course.

Suppliers

The removal of existing WST and other indirect taxes on manufacturers and wholesalers should have flow on benefits for councils. To ensure compliance with the stringent requirements of the ACCC, councils must ensure that suppliers pass on cost savings.

The generic supplier letter at Appendix A may be used as a draft to send to all councils’ suppliers, asking them to consider the impact of tax reform and associated cost savings.

Customers

Most councils have not yet determined what cost savings will arise, if any. Any customers who enquire should be advised that councils are currently reviewing their business dealings to identify if any cost savings will arise. If customers are registered for GST, they will be able to claim a credit for any GST included in prices for goods or services.

Further Information

Copies of the ACCC guidelines are available for download from the ACCC web site: www.accc.gov.au.

7. Tax Invoices

Section 29-70 of A New Tax System (Goods and Services Tax) Act 1999 specifies the requirements for the issue of Tax Invoices. A business wishing to claim input credits will be required to hold a tax invoice for all acquisitions in excess of \$50 (GST exclusive value). Businesses providing taxable supplies will therefore need to produce complying tax invoices for their customers.

Requirements under the Act

The Act provides that tax invoices must:

- Be issued by the supplier, unless it is a recipient created tax invoice (see Section 8);
- Show the Australian Business Number (ABN) of the issuer of the document;
- Set out the price of the supply;
- Contain such other information as the regulations specify; and
- Be in the approved form.

Additional Requirements Under the Regulations

The Treasurer has released regulations specifying the other information that must be shown on Tax Invoices.

- The words : “Tax Invoice” stated prominently;
- The date of issue of the tax invoice;
- The supplier’s name; and
- A brief description of each thing supplied;

The following additional details are required where the total amount of the supply, including GST is \$1000 or more:

- The name of the recipient;
- The address OR the ABN of the recipient; and
- For each description, the quantity of the goods or extent of the services supplied.

There are also special rules for showing the amount of GST payable and GST inclusive price depending on the GST status of the supplies.

Invoices for Taxable Supplies

Where the invoice is for taxable supplies only, and the amount of GST is exactly 1/11th of the total price the tax invoice must include either a statement saying that GST is included in the total amount payable or must show the GST amount payable.

Where the invoice is for 1 or more taxable supplies and the amount of GST payable is less than 1/11th of the total price, the tax invoice must show both the GST-exclusive price for the taxable supplies and the amount of GST payable on the taxable supplies. This scenario is only likely to occur with long term accommodation.

Invoice for “Mixed” Supplies

If the invoice is for one or more taxable supplies and a supply that is either GST-free, input taxed or supplied before 1 July 2000, the tax invoice must clearly identify each taxable supply and show both the total amount of GST payable and the total amount payable.

Administration

If an invoice is in electronic format, both supplier and recipient must keep the invoice in a readily obtainable form for five years.

Although these are the requirements for tax invoices issued from 1 July 2000, the Australian Taxation Office has issued a draft ruling “GSTR 1999/02: Goods and Services Tax: transitional arrangements – entitlement to an input tax credit without a tax invoice” which sets out more concessional requirements for invoices issued before that date.

These requirements apply regardless of whether the invoice is in paper or electronic format.

Approved Form for Tax Invoices

According to the draft ruling “GSTR 1999/10”, a tax invoice does not have to be expressly created for the sole purpose of satisfying the tax invoice requirements. Ordinary commercial documents such as renewal notices are capable of being tax invoices.

Other than the requirements set out in the GST Act and the GST Regulations listed above, and subject to the exceptions set out below, the Commissioner does not have any additional requirements for a document to be in the approved form.

Documents that will be treated by the Commissioner as Tax Invoices:

Insurance renewal, motor vehicle registration, subscription and similar notices

Sometimes a document is issued before it is certain that a supply will be made because the document is merely an offer (such as motor vehicle registration, insurance renewal notices, subscriptions to professional associations, trade magazines and the like). When the recipient accepts the offer by making payment, the document will be in the approved form if it satisfies tax invoice requirements and indicates that it will be a tax invoice when payment is made, such as “This document will be a tax invoice for GST purpose when you make a payment”.

Low Value Taxable Supplies

Pursuant to the ruling the Commissioner will require a tax invoice where the total value (excluding GST) of the taxable supply of items when added together, exceeds \$50. Thus, where the transaction comprises of 5 items, each with a value of \$20, a tax invoice will be required as the total value of the taxable supply exceeds \$50. Further, the ruling specifies that some form of documentary evidence should support all input tax credit claims.

Errors on Tax Invoices

If a document is reissued because the original document did not meet the tax invoice requirements, the document showing the correct information is the tax invoice.

Special Rules

The ruling sets out the special rules for certain types of taxable supplies that will affect tax invoices, including:

Supplies Made for a Period or on a Progressive Basis

A supplier does not have to issue separate tax invoices for each component of the progressive or periodic supply. A single document can be a tax invoice if it satisfies the GST Act and GST Regulations and shows the price of each component of the supply. Alternatively where the price is not the same for every component a schedule may be attached which shows the price for each component. Further, the document only satisfies the requirements of a tax invoice where the price is shown. Thus, where the price is subject to variation (eg CPI variation), another tax invoice must be issued.

Reimbursements

Where a council reimburses an employee for expenses incurred on behalf of the council, the council can still claim an input tax credit even though the tax invoice may identify the employee as the recipient.

GST Groups

The tax invoice must include the details of the member of the group making the taxable supply and not the representative member of the group.

GST Branches

A tax invoice must be issued for taxable supplies that are made between branches and between the parent entity and the branches.

Agents

For supplies and acquisitions made through an agent where the details (name and ABN or address) of the recipient must be included on the tax invoice (that is where the invoice is for \$1,000 or more), the GST Act and the GST Regulations will be satisfied if the agents details are shown on the invoice.

Where an agent acts as agent for more than one principal, or the agent makes supplies on its own behalf in addition to the supplies made on behalf of the principal, it is sufficient that the agents details be shown on the tax invoice.

Requirements to Keep a Copy of a Tax Invoice

The ruling states that it is not necessary to keep a copy of all tax invoices issued, however the ruling indicates that keeping a copy would be one way of evidencing compliance with the requirement to issue a tax invoice.

GST Paid prior to 1 July 2000

Draft Ruling "GSTR1999/2" explains how the Commissioner will exercise his discretion in allowing the council to claim an input tax credit without holding a tax invoice if documents are issued before 1 July 2000 for taxable supplies made on or after that date.

If the minimum information detailed below is included in a document issued before 1 July 2000 for a taxable supply then a recipient will be able to claim an input tax credit without obtaining another document after 1 July 2000 to satisfy the requirement to hold a tax invoice.

A document issued before 1 July 2000 for a taxable supply made on or after that date must contain the following information:

- The suppliers name or trading name
- The suppliers address
- The date of issue: **and**

- The price of the taxable supply, and a statement indicating that the price includes GST (if the supply is for a period that spans 1 July 2000, the taxable supply is that part of the supply to be made on or after 1 July 2000); **or**
- The amount of the GST payable.

Registered businesses will request that councils issue tax invoices in regards to any taxable supplies they make. These may include:

- Private Works;
- Airport Landing Levies;
- School bookings at swimming pools and tourist attractions; and
- Facility hire (e.g., halls).

8. Recipient created tax invoices

In certain circumstances, usually where the recipient rather than the supplier determines the value of the supply, the ATO may determine that the tax invoice may be produced by the recipient of the supply. In addition to the above requirements, this invoice must show the words "Recipient created tax invoice", the ABN of the supplier and the issuer and a statement to the effect that the GST shown is payable by the supplier.

Set out below is a summary of draft ruling GSTR 1999/D5 which deals with recipient created tax invoices ("RCTI"):

The draft ruling sets out:

- The classes of tax invoices which may be issued by a recipient for a taxable supply;
- The requirements for using a RCTI;
- The information which an RCTI must contain;
- The procedures to be followed in applying to the Commissioner for separate determination in relation to specific classes of tax invoices not proposed to be covered in the general determination.

The Commissioner is proposing to make a determination allowing three classes of tax invoices to be issued as RCTIs, subject to the requirements below, without further reference to or approval by the ATO. These are:

- Tax invoices for supplies of agricultural products where the recipient, and not the supplier, determines the value of the supply;
- Tax invoices for supplies made to Government entities; and
- Tax invoices for supplies made to recipients with an annual turnover of \$20 million or more.

Other registered recipients of taxable supplies not covered by the above classes can make a request for a special determination from the Commissioner. Such a determination will be based on the circumstances including the nature of the taxable supplies, the supplier and/or the recipient.

For a RCTI to be acceptable there are various requirements that need to be satisfied by the council and the supplier:

- Both the supplier and the recipient (the council) must be registered when the invoice is issued;
- The RCTI must show the ABN of the supplier;
- The council must issue a copy of the RCTI to the supplier and retain the original;
- The council must issue an adjustment note to the supplier in relation to adjustment events;
- The council and the supplier must have a written agreement that is current and effective when the RCTI is issued, agreeing that:
 - The council can issue tax invoices in respect to the supplies;
 - The supplier will not issue tax invoices in respect to the supplies;
 - The council and the supplier acknowledge that they are registered for GST when they enter the agreement and that they will notify the other party if either ceases to be registered and in the case of the council, if it ceases to satisfy the requirements of the ruling;

- The council indemnifies the supplier for any liability for GST and penalty that may arise from an understatement of GST payable resulting from an RCTI issued by the council; and
- The council must not issue a document that would otherwise be an RCTI on or after the date that either party fails to satisfy all of these requirements.

9. Adjustment Notes

The GST Act provides that a supplier must issue an "adjustment note" in relation to the "adjustment event" within 28 days of being aware of the event. Draft ruling GSTR1999/D1 sets out the requirements for adjustment notes.

Commissioner's information requirements under paragraph 29-75(1) of the GST Act for adjustment notes:

- Words "adjustment note" in prominent place on the document;
- Name of supplier;
- Name of recipient;
- Address or ABN, of the recipient;
- Issue date of the adjustment note;
- Issue date of the original tax invoice for the taxable supply or, if there were any previous adjustment notes, the issue date of the last adjustment note;
- Price of the taxable supply in the tax invoice or previous adjustment note, the corrected price and the difference between these amounts; and
- Brief explanation of the reason for the adjustment.

Abbreviated Adjustment Notes

Information requirements for abbreviated adjustment notes (issued where original tax invoice was less than \$1,000) require disclosure of all the above with the exception of the name of the recipient and the address or ABN of the recipient.

Recipient Created Adjustment Notes

Information requirements for recipient created adjustment notes are identical to those for non abbreviated adjustment notes with the following exceptions:

- Words "recipient created adjustment note" must appear in a prominent place on the document; and
- Name, address or ABN of the recipient is not required.

Other Features of the Draft Ruling

Where the amount of GST payable is less than 1/11th of the price of the taxable supply, the adjustment note must also show the correct amount of GST and the difference between the GST shown on the tax invoice or previous adjustment note and the correct amount of GST payable.

The information requirements noted above apply irrespective of the form of the adjustment (i.e. electronic or hard copy).

The requirements noted above may be subject to considerable change when the final ruling is issued.

10. Pay As You Go Withholding

As discussed briefly earlier in the Manual, a major part of the tax reform process is the introduction of the Pay As You Go (PAYG) withholding arrangements. There are two main aspects to PAYG.

1. Withholding Events; and
2. Tax instalments.

Withholding is most relevant to councils so is covered in detail below.

This system will standardise and simplify the elements of the current tax withholding arrangements by replacing Pay As You Earn (PAYE), Prescribed Payments System (PPS), Reportable Payments System (RPS) and other withholding tax regimes with effect from 1 July 2000. It will apply to payments that satisfy the definition of “withholding events.”

Withholding Events include:

1. Wage and Salary Related Payments
 - Salary or wages to employees or elected members.
 - Return to work payment to an individual
 - Payment under a labour hire arrangement
2. Benefits Payments
 - Eligible Termination Payment
 - Payment for unused leave on an individual’s retirement or termination
 - Compensation, sickness or accident payment
3. An entity must withhold 48.5% from payments for Goods and Services supplies where the supplier does not quote its Australian Business Number. This does not apply where the activity is done as a hobby or recreational pursuit, or to activities that are wholly of a private or domestic nature. A written statement to this effect must be obtained from the supplier. This will cause additional administration work for councils, as each withholding will have to be recorded and remitted to the ATO.

Remittance of Amounts Withheld

PAYG withholdings will have to be remitted to the ATO according to the classification of the council.

Large withholders (total PAYG withholding remittances for a year in excess of \$1,000,000 or part of a group with remittances exceeding \$1,000,000) will be required to make payments within approximately one week of making the withholdings.

Medium withholders (total PAYG withholding remittances for a year between \$25,000 and \$1,000,000) will be required to make payments by the 21st day after the end of the month in which the amount was withheld.

Small withholders (total withholding remittances less than \$25,000) will be required to make payments by the 21st day after the end of the quarter in which the amount was withheld.

All of these payments will be included with your GST payments on your BAS.

11. General Record Retention Requirements

Councils will need to keep records that record and explain all transactions engaged in by them that are relevant for GST purposes. A record will 'explain' transactions engaged in by an agency if it contains information which will enable the Australian Taxation Office ("ATO") staff with accounting skills to understand the essential features of the transactions.

In addition, agencies must keep records in writing or so as to enable the records to be readily accessible and convertible into writing. A record made and retained in an electronic form, e.g., magnetic tape, computer disc, etc., is in a form which is readily accessible and convertible into writing.

Where records are kept in electronic form, the records must be in a form ATO staff can access and understand in order to ascertain the person's taxation liability.

The information contained in a record kept in a computerised accounting system is generally the same as would be contained in a manual accounting system.

A council using either a manual or a computerised accounting system may want to store documents in electronic form. Where paper records are produced or received in the course of carrying on business, the ATO accepts the imaging of those records onto an electronic storage medium provided that the electronic copies are a true and clear reproduction of the original paper records.

Where paper records are imaged and stored electronically, they should:

- Not be altered or manipulated once stored;
- Be retained for the statutory period of five years; and
- Be capable of being retrieved and read at all times by ATO staff. The taxpayer is expected to provide appropriate facilities for the viewing of the electronic records kept in that format and where necessary, the printing of a paper copy or the provision of an electronic copy.

The ATO considers that paper records imaged and stored electronically should be:

- Read only; and
- Subject to adequate back-up control, i.e., a duplicate back-up copy of the stored records must be kept at all times at a safe location.

Original paper records that have been imaged onto an electronic storage medium need not be retained for the purposes of the Act.

12. Grants

One of the major considerations for local government entities following the introduction of the GST on 1 July 2000 is the treatment of grants.

On 24 December 1999, the Australian Taxation Office (“ATO”) released Draft Taxation Ruling GSTR 1999/D13 (“the DTR”) dealing with the application of GST to grants and financial assistance. Whilst the DTR may not be relied on until it is finalised, it represents the preliminary, though considered views of the ATO.

The ruling applies to grants made by governments and the private sector to private and community organisations. “Grants” include provision of financial assistance by means of direct grants, contributions, subsidies, co-payments and similar means.

Grants Subject to GST

Grants made by a council will only be subject to GST if they represent consideration for a taxable supply. Note that where a council provides a grant of something other than cash, both the council and the grantee possibly will make a supply and an acquisition, as the granting of the item may be a taxable supply.

Instances where grants are consideration for a taxable supply are:

1. *Undertaking or obligation to do something.* The grantee makes an undertaking or enters into an obligation to do something in return for the grant. For example, the grantee undertakes:
 - To do something with the granted funds;
 - To use the funds granted in a manner that will further the council’s objectives; or
 - To provide specified services for or on behalf of the council.
2. *Provision of rights to the council.* Where the grantee enters into a grant agreement with the council, e.g. the council is given a right to repayment if the grantee fails to use the funds in the manner specified by the council, the creation of this right establishes a supply. Where the grantee has an existing right, which the grantee surrenders in exchange for the grant, the surrender of the right is a supply. Mere expectation of the council on how the grant will be spent without any undertaking or obligation on the part of the grantee will not establish a supply to the council.
3. *Provision of information by the grantee.* Where the grantee is required to provide information of some form to the council this will be a supply. Undertaking to provide a report on how the funds were expended may establish a supply, although the ruling distinguishes cases where the information supplied does not provide a material advantage to the council.

In the case of a reimbursement grant, the provision of information in the application for reimbursement (which the council will use to determine whether to make a grant of reimbursement) will establish a supply to the council. However, it will not be a taxable supply until the council considers the application and makes the grant.

Gifts: Not Subject to GST

Gifts to non-profit bodies are not consideration. A “gift” is something transferred by the council voluntarily and free from contractual obligation, with no advantage of material character received by the council in return. Thus, where a grant to a non-profit body is made, and the supplies for which the grant is consideration have no material value to the council, the grant will not be subject to GST. The

provision of accounting or reporting information on how the grant was expended will not necessarily mean that a 'gift' becomes consideration.

However, where the supply in exchange for grant has a material value, the grant to the non-profit body would be subject to GST. For example, the non-profit body enters into an obligation to use the grant to conduct specific research and provide a report on the results of that research to the council. This would have a material value to the council and the grant would not be considered a gift. In such case, the GST would apply.

Timing of the supply for GST purposes.

If a body gives an undertaking to supply services to the community over a period rather than being identifiable to any particular services to be performed, the time of supply is when the undertaking is made, not the time of actual supply.

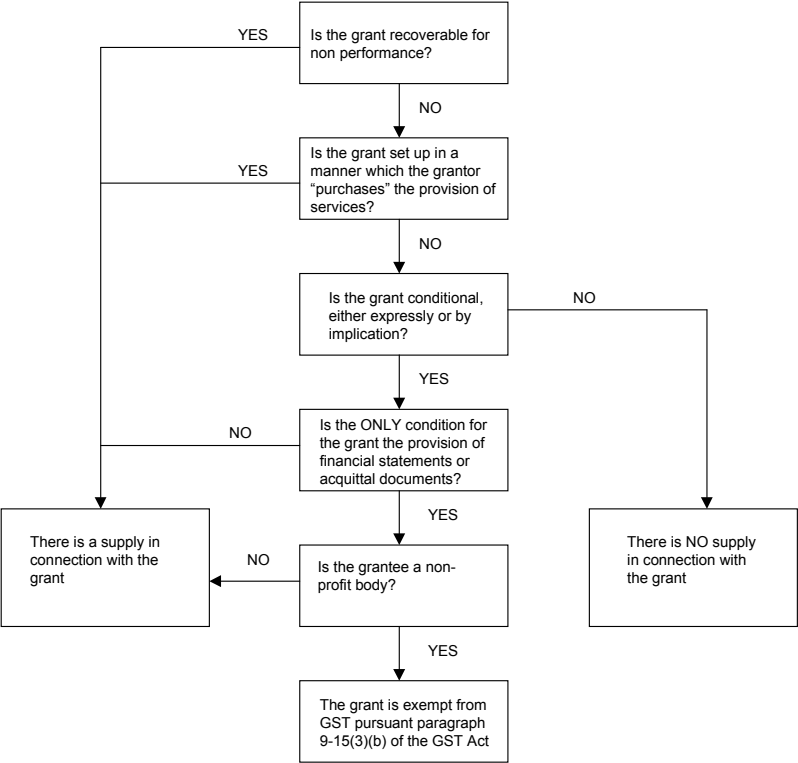
If the grant is made in return for the specific services or the provision of information to the council, the supply will be made at the time the services or the information is supplied.

Where several specific things are supplied at different times in relation to a single grant, the amount of the grant should be apportioned among the periods those services are supplied.

Grossing up of Grants

In most cases, grantees would be required to do something in exchange for the grant, and accordingly would have to account for GST on grants received. Thus, they would need to ensure that the grants they receive are grossed-up to take account of their liability so as not to effectively reduce their funding. The council may be able to claim an input tax credit for the GST amount if grant is grossed up. Examples of grossing up are given in GSTAware Newsletter #3.

The following decision tree summarises the factors to be taken into account when deciding whether a grant is taxable:



PART B – GST IMPLEMENTATION STRATEGY

1. Suggested Implementation Strategy

The implementation of GST within your Council will require a co-ordinated approach. Together with other elements of tax reform such as Pay As You Go and the Australian Business Number, the introduction of the GST has the potential to affect every part of the Council's business. As previously mentioned, it is not just a tax issue to be left to the finance department to implement. It is a whole of Council issue, which will require input from every department.

To assist with this implementation we have detailed a methodology you can adapt to your Council. This is a suggested approach only. There are many different methods of getting to the end result. You must, however have a team, an objective and a plan.

There are two phases to this suggested process.

Phase 1: Initial Review and Awareness Generation. This provides you with a framework to conduct your GST implementation by identifying issues and setting a general implementation timetable. It identifies who needs to be involved in the project and classifies the issues into logical categories. In reviewing the issues consider, does it impact:

Timetabling, critical path

Urgency with which action must be taken

ACCC, Local Government and any other outside regulations

The Council's ability to manage and incorporate change.

Lead times for implementation (eg systems).

Specific areas of review.

Structuring of transactions

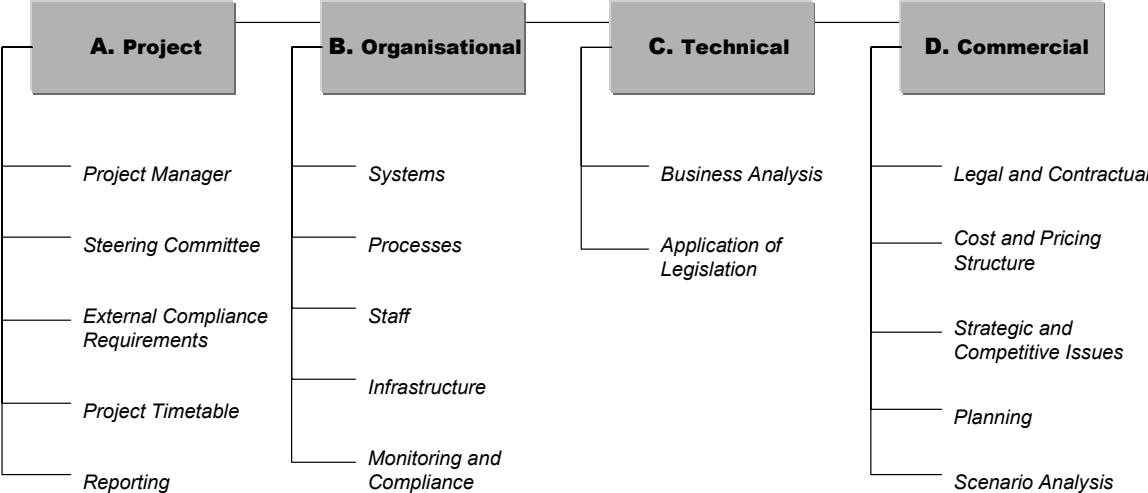
Council's public profile

Phase 2: Detailed Assessment and Implementation. The activities we believe need to be carried out for a successful implementation are listed in the GST Implementation Planner. We have categorised them to fit the Implementation Methodology outlined in Phase 1, ie, Project, Organisational, Technical and Commercial.

While we have made every attempt to cover all areas, it is necessarily general to relate to as many different councils as possible. Accordingly, we recommend that you consider each issue listed and its application to your council but do not limit yourself to these issues. It would be impossible to cover every issue relevant to every council. This listing will indicate the types of issues you should consider.

Structure of Implementation Methodology

In addition to the above, the entire project is made up of many parts. Below we have listed these parts, categorised into typical project management classifications. Each of these will be addressed in the following strategy outline.



If this initial process is not already well underway, significant resources must be provided to ensure implementation is completed by 1 July 2000.

1.1 Phase 1 Initial Review and Awareness

Step 1: Introduction

- Initial meeting with key GST team members.

Step 2: Awareness Session

- Meetings with key staff.

Purpose

- To develop awareness of GST and the implementation project.
- To begin identification of specific issues in respect of the project.

Who should attend

- CEO
- Finance Manager
- Supply/Procurement/Logistics Manager
- Sales/Business Development/Marketing
- Accounts Payable and Receivables Staff
- Divisional Managers
- IT Staff
- HR Staff
- Legal

Time

- Allow for 3-4 hours depending on the size of the Council.
- More than one session may be necessary.

Materials

- Explanatory session on what the GST is and how it will affect the Council, may take the form of slide or PowerPoint presentation. External consultants may be engaged to undertake the session.
- Note-taking handout.

Format

- A draft agenda indicating the structure of the meeting and the topics to be covered is attached.

City of XYZ
GST Seminar
Agenda

Date: _____

Time: _____

Location: _____

9:00am Introduction

- What is GST?
- How does it operate?
- What are the main issues for Council?

10:30am Break

10:45am Discussion

- May be done as single group or in functional areas
- Should be a “brainstorming” session where various areas raise aspects they think could be issues. Discuss and complete Operational Profile (refer attached)
- Record issues discussed (refer attached)

12:00 Finish

Issues raised during this process should be recorded, analysed and grouped appropriately by the Project Manager.

City of XYZ Operational Profile

Date: _____

Prepared by: _____

Description of Council (ie metropolitan, rural, commercial focus etc)	
Principal Income Generating Activities (ie Rates, Grants, Private Works, Services, Recycling Activities, Swimming Pool etc)	
Principal Suppliers (Corporate grants, contractors, individuals, businesses, subcontractors etc)	
How are purchases made? (eg central supply, procurement) Describe processes	
IT Systems Utilised (main accounting, supply chain etc)	
Planned Future Developments/ Activities/Changes	
Other Major Projects Underway/ Planned	

City of XYZ
Report of Key Implementation Issues

Implementation Area	Issue Identified	Implementation Action
Project		
Organisation		
Technical		
Commercial		

1.2 Phase 2 GST Implementation Project Planner

A. PROJECT

Activity	Responsibility	Deliverable	Due Date	Completion Date	Comment
<p>A1 Project Manager</p> <ul style="list-style-type: none"> • Appoint project manager • Reorganisation of normal duties • Communication to managers and appropriate staff 					
<p>A2 Steering Committee/Working Group</p> <ul style="list-style-type: none"> • Formation (incl. time of operation) • Establish schedule of meetings • Identify format for meetings • Presentation of issues from Phase 1 • Communication to circulation list of responsibilities, process, expectations, requests for audit etc • Establish protocol for reporting of issues/ identification of issues by Committee/Group 					

Activity	Responsibility	Deliverable	Due Date	Completion Date	Comment
<p>A3 External Compliance Requirements</p> <ul style="list-style-type: none"> • Identify any external compliance requirements eg ATO • Include deadlines in implementation timetable • Prepare report for ABN number • Liase with LGA for application for GST registration 					
<p>A4 Project Timetable</p> <ul style="list-style-type: none"> • Complete initial project timetable • Initial resource impact analysis • Confirmation of resource availability and preparation of GST implementation budget • Approval of budget • Issues from Phase 1 incorporated into Project Planner 					
<p>A5 Reporting</p> <ul style="list-style-type: none"> • Create circulation list for GST related information • Identify any external or internal auditor requirements for reporting and sign-off by responsible person • Establish format and frequency for reporting (project, budget and resources) to Council/CEO • Establish reporting mechanism following each meeting to report to those on circulation list • Regular reporting schedule in timetable • Identification of policy issues to be decided on and the structure and method for these decisions to be made and communicated 					

B. ORGANISATIONAL

Activity	Responsibility	Deliverable	Due Date	Completion Date	Comment
<p>B1 Systems (See Appendix A)</p> <ul style="list-style-type: none"> • Identify all information systems in place and functionality • Confirm with supplier GST compliance/readiness • Confirm supplier availability and estimated lead times for compliance • Preparation of consultant brief for systems changes if necessary • Work plan for systems changes/developments • Contingency plans for GST compliance failure • Systems Testing sign off of systems compliance checklist <ul style="list-style-type: none"> – Tax invoice production – Recording of GST paid and collected, adjustments – Apportionment – Business Activity statement information – Electronic lodgement 					
<p>B2 Processes</p> <ul style="list-style-type: none"> • For each cost centre, flow chart: <ul style="list-style-type: none"> – Accounts receivable – Accounts payable – Procurement – Materials and Inventory Management – Sales • Identify systems in each process • Identify individuals in each process • Identify all documentation used • Identify timing of events (eg annual, monthly etc) • Amend policy and procedure manual for GST compliance • Amendments to system and training manuals 					

Activity	Responsibility	Deliverable	Due Date	Completion Date	Comment
<p>B3 Staff</p> <ul style="list-style-type: none"> • Preparation and distribution of regular project update for staff • Training needs within council in dealing with ratepayers • Preparation of "Common Question" bulletin for staff • General staff forums to discuss impact of GST on the organisation and general issues • Staff information session for those staff involved in core processes • Staff input on system and procedure changes • Staff training on systems and procedure changes • Review of staff salary packaging arrangements incl allowances, reimbursements etc 					
<p>B4 Infrastructure</p> <ul style="list-style-type: none"> • Design of tax invoices • Establish lead times with suppliers. Amendment of stationery to incorporate ABN • Procedure for withdrawal of all old stationery • Process for monthly collation and reporting of information for Business Activity Statement preparation 					
<p>B5 Monitoring and Compliance</p> <ul style="list-style-type: none"> • Development of internal audit/QA protocol <ul style="list-style-type: none"> – Business Activity Statements – Recording of payments and receipts – Adjustments – Maintenance of documentation 					

C. TECHNICAL

Activity	Responsibility	Deliverable	Due Date	Completion Date	Comment
<p>C1 Business Analysis</p> <ul style="list-style-type: none"> • Undertake income analysis (classify as taxable, GST-free or Input taxed) • Grant application and approval documentation review and alteration • Undertake expense and purchases analysis (creditable or non-creditable) • Review average collection period over last 12 months • Compile list of suppliers and contacts • Letter to all suppliers re GST compliance and tax invoices (see Appendix B) • Action in respect of non-compliant suppliers • Contract review • Procedure for purchases being made now over 1 July 2000 • Procedure for income being received over 1 July 2000 • Review average payables balance and payment periods • Analyse proposed capital acquisitions • Identification of supplies made to associates • Identification of any barter or contra arrangement, such as non cash sponsorship • Identification of gift and donation areas 					
<p>C2 Application of GST Legislation</p> <ul style="list-style-type: none"> • Establish procedure for technical review • Appointment/Nomination of advisers for technical issues • Identification of technical issues specific to the organisation/industry • Identification of technical issues not resolved by legislation • Establish approach to be adopted • Contingency plan for alternative legislative outcome 					

D. COMMERCIAL

Activity	Responsibility	Deliverable	Due Date	Completion Date	Comment
<p>D1 Legal and Contractual</p> <ul style="list-style-type: none"> • Identify contracts for review • Establish prioritising criteria • Policy for future contracts (precedents) • Draft of standard clause(s) where appropriate • Amendment to standard contracts • Review contracts (refer Appendix C for checklist & decision tree) • Circulation of policy in respect of future contracts • Identify re-negotiation strategy for applicable contracts • Renegotiations complete • Circulate protocol of contract review and any information required 					
<p>D2 Cost and Pricing Structure</p> <ul style="list-style-type: none"> • Complete analysis of future cost/expense structure • Complete analysis of current prices/rates structure • Identify action list from analysis • Development of pricing and rate setting strategy • Financial sensitivity analysis 					
<p>D3 Strategic and Competitive Issues</p> <ul style="list-style-type: none"> • Review of existing strategic plan • Undertake strategic review 					
<p>D4 Planning</p> <ul style="list-style-type: none"> • Review of existing short term and long term operating and capital budgets • Identification of planning opportunities in respect of capital purchases • Amendments to budgets and forecasts for cost/revenue analysis 					

Activity	Responsibility	Deliverable	Due Date	Completion Date	Comment
<ul style="list-style-type: none"> • Preparation of monthly cash flow forecasts incorporating GST, FBT and PAYG remittance obligations • Establishment of cost savings targets • Develop plan to minimise transition cost eg deferral or bring forward purchases/sales 					
<p>D5 Scenario Analysis</p> <ul style="list-style-type: none"> • Undertake scenario analysis workshop to assess further possible impacts of GST and other associated issues. 					

**City of XYZ
Supplier List**

Supplier Name	Address	Contact	Credit Terms	Ranking (1 High, 3 Low Priority)	Letter re GST sent	Letter/Response Received

City of XYZ
Expense and Purchases Analysis

Description	Supplier(s)	GST? Yes/No	Is this a creditable acquisition ?	Is there a contract with this supplier?	Has this contract been reviewed ?	Are payments made for periods across 1/7/00	Do transitional provisions apply?	Action required	Complete	Sign-off

City of XYZ
Income, Revenue and Sales Analysis

Description	Customer(s)	T/F/I (Taxable, GST Free, Input Taxed)	Sales Contract	Are sales made across 1/7/00?	Do transitional provision apply?	Action required	Completed	Signature

PART C - APPENDICES

Appendix A - Accounting System GST Compliance:

Your accounting systems will be critical to the successful implementation of the GST. This compliance checklist will assist you in assessing the GST compliance of the council's accounting systems. For the purposes of this document, 'GST compliance' is defined as follows:

A system is 'GST compliant' if its normal operation meets all of the requirements of the New Tax System (Goods and Services Tax) Act 1999 and associated Regulations that are applicable, or could be applicable, for the entity.

It is expected that this checklist will be used to identify necessary areas of change required to ensure compliance in existing systems, as well as to assess the validity of claims of GST compliance by software vendors.

The checklist is based on information available at the date of publication. It is subject to changes in regulations and interpretations issued by the ATO as well as the release of new accounting standards covering the treatment of GST.

Checklist

Revenue/Accounts Receivable			
Ref	System Requirement Description	Explanation/Applicability	Complies
S.1	Each supply item can be given a default GST category: This will need to be contained in a tax code or similar table for each supply item.	Tax rules and processing are different for each category of supply . Tax classifications include GST-free (0%), input-taxed (0%), taxable supply (10%), taxable importation or a separate classification for supplies taxed in a special way. Note that as the current draft Business Activity Statement requires a separate disclosure for GST free exports, a separate category for this type of supply may be needed.	
S.2	The default GST category on GST supplies can be changed at the time of invoicing if required.	Supplies that would otherwise be GST-payable can become GST-free – for example, if the supply is exported. Also, for certain supplies the supplier and recipient can elect for a supply to be taxed or not.	
S.3	You will need to generate a Tax Invoice for all taxable supplies you make.	A recipient can require you to provide a Tax Invoice within 28 days. However, you should generate a Tax Invoice without being requested to do so, therefore existing invoices or receipt documents should be adapted for this purpose. The Tax Invoice will need to include certain prescribed information to be contained in Regulations - for example, prices, GST amounts, recipient ABN or address. Tax Invoices are required for claiming input tax credits where the value of the consideration is more than \$50.	

Revenue/Accounts Receivable			
Ref	System Requirement Description	Explanation/Applicability	Complies
S.4	Additional information such as customer names, addresses and/or ABNs can be recorded on Tax Invoices if required.	Regulations require that Tax Invoices for a supply of \$1000 or more include additional information such as the customer name and address or ABN.	
S.5	An Adjustment Note can be produced where there is an adjustment event relating to a supply.	You must give recipients of supplies Adjustment Notes where all or part of the supply is cancelled, the consideration is altered (eg. volume discounts, refunds, returns, etc.), the GST category changes or an incorrect GST amount has been charged, or where the original supply was of a value exceeding \$50. It must be produced within 28 days of a request from the acquirer. However, you should generate an Adjustment Note without being requested to do so, therefore existing credit notes or similar documents should be adapted to this purpose. The Adjustment Note will need to include certain prescribed information as determined by the Commissioner of Taxation. The format is expected to be very similar to a tax invoice.	
S.6	The appropriate attribution rules for GST can be applied.	<p>For entities accounting for GST on a cash basis, GST payments are attributed to the tax period when the consideration is received. If a part of a consideration is received, GST for only the part received is attributed. Adjustments are attributable in the tax period in which the change in consideration is paid or received.</p> <p>For entities accounting for GST on an accruals basis, GST payable is attributable to the earliest tax period in which any consideration is received or an invoice is issued. Adjustments are attributed to the tax period in which the agency becomes aware of the need to make the adjustment.</p>	
S.7	GST adjustments can be made for bad debts and bad debt recoveries.	There are special rules regarding the GST treatment of bad debts. An adjustment can be made to claim back a credit for GST you have previously charged on a supply where the money remains uncollected for 12 months or more, or when a debt is written off as bad. Where an amount previously written off is recovered, you will need to make an adjustment to pay the GST again. <i>Not applicable if you account on a cash basis.</i>	

Revenue/Accounts Receivable			
Ref	System Requirement Description	Explanation/Applicability	Complies
S.8	GST amounts in accounts received or due, and adjustments, can be posted to the appropriate control accounts in the General ledger.	Accounting standards will require amounts receivable and payable should be disclosed inclusive of GST. Revenues, expenses and assets should be recognised exclusive of GST.	
S.9	Supplies made through an agent can be recorded along with details of Tax Invoices issued by the agent.	Either the agent or entity (as principal) can issue a Tax Invoice, but only one Tax Invoice can be issued. Therefore responsibility for issuing and retaining Tax Invoices need to be determined (principal or agent), and how the GST charged can be integrated into the council systems to produce General Ledger entries and Business Activity Statements.	
S.10	Supplies transferred between separately registered entities (or branches) which are taxable can be accounted for and distinguished from intra-entity supplies which are not taxable.	Supplies from one GST registered entity (or branch) to another (or to a 'parent company') are subject to GST where the supplies are taxable supplies. The system will need to identify customers who are intra-entity and not charge GST on such supplies.	
S.11	Where you make supplies and the consideration is to be received on a progressive or periodic basis, GST needs to be accounted for as if each progressive component of the supply were a separate supply.	For progressive or periodic supplies, the whole GST amount for the supply is not accounted for when the first payment is received or the invoice is issued (as would otherwise be the case under the accrual method). Where the supplier of progressive or periodic supplies only issues the one invoice for the whole term of the supply, and does not issue regular invoices, it is important that the system does not attribute GST to a tax period for the whole invoice GST amount. The system needs to be able to attribute GST on each "separate supply" when the regular payments of the progressive supply are received (cash basis). <i>Not applicable if you do not/will not provide progressive or periodic supplies or receive the consideration progressively.</i> <i>Not applicable if you account on a cash basis.</i>	
S.12	For progressive or period contracts spanning 1 July 2000, the system will need to calculate GST only on the pro-rata portion post 1 July 2000.	For agreements for periodic or progressive supply, the GST is calculated on the basis that the supplies are made on a continuous and uniform basis over the period of supply (such as subscriptions, memberships, maintenance agreements, etc). If an invoice is issued before 1 July 2000 for a taxable supply after that date, the invoice does not need to be a "Tax Invoice", but must contain certain minimum information, such as	

Revenue/Accounts Receivable			
Ref	System Requirement Description	Explanation/Applicability	Complies
		price of taxable supply and either a statement that the price of the taxable supply includes GST or the amount of GST.	
S.13	Tax Invoices issued can be readily accessed for five years.	Tax Invoices issued electronically or in paper must be retained in a readily accessible form for five years after the date of the transaction.	
S.14	Ensure receipt amounts and other GST information interfacing with other systems account for GST in an appropriate manner.	Depending on the use to which the information is put, information passed to interfacing systems may need to be adjusted to either include or exclude GST amounts and other details. For example, the Tax Invoices may be required to state prices net of GST with an additional line item for GST. The Business Activity Statement (in the current draft form) requires amounts to be disclosed on a gross basis.	

Purchasing/Accounts Payable			
Ref.	System Requirement Description	Explanation/Applicability	Complies
P.1	The amount of GST included in the price of creditable acquisitions can be recorded.	Registered entities are entitled to input tax credits for GST included in the cost of creditable acquisitions. The amount of input tax credits needs to be separately recorded for each acquisition transaction.	
P.2	The extent to which an acquisition is used for creditable purposes (if less than 100%) can be recorded.	Input tax credits for acquisitions which are only partly for creditable purposes need to be apportioned. This will primarily be where the council is conducting input taxed activities, such as financial supplies or residential rents.	
P.3	Tax Invoice details can be recorded for the purpose of calculating input tax credits.	Tax Invoices are the key source document for determining the extent to which GST is included in the cost of an acquisition. The details may include the price (inclusive of GST) or the GST-exclusive value and the amount of GST, for each acquisition transaction on the invoice. Acquisitions may need to be categorised as taxable, GST-free, input-taxed or falling within special rules. Where the invoice for a creditable acquisition does not show the GST amount, the system (or user) will need to calculate 1/11 th of the GST inclusive price as the input tax credit. A Tax Invoice must be held at the time of lodging the GST return in order to claim input tax credits for supplies with a value of more than \$50.	
P.4	Input tax credits can be accurately calculated for creditable acquisitions with a value of less than \$50 for which no Tax Invoice is held.	Where the invoice does not show the GST amount, the system (or user) will need to calculate 1/11 th of the GST inclusive price as the input tax credit. For input tax credits where the value of the supply is less than \$50 some documentary evidence is still required to support claims.	
P.5	GST paid on imported supply can be recorded.	The system may need to have 3 categories of imports – GST included on goods, GST not included on goods, and reverse charge for GST not included in services. GST will be payable on a taxable importation. However, the importer will be entitled to an input tax credit equal to the GST payable if it is a creditable importation. In this situation, the input tax credit can be claimed without a Tax Invoice. There may be instances where imported goods do not pass through customs and do not incur	

Purchasing/Accounts Payable			
Ref.	System Requirement Description	Explanation/Applicability	Complies
		<p>GST on acquisition.</p> <p>Where you import something other than goods from a non-resident vendor it may be subject to a special “reverse charge” rule. This might apply in the cases of services performed outside of Australia, or for the acquisition of intellectual property (e.g. licence fees). Where you are paying for an overseas supplied service and you cannot claim full input tax credits, then you must self assess and remit 10% of the purchase price to the ATO under the “reverse charge”.</p> <p><i>Not applicable if your council does not/will not import supplies.</i></p>	
P.6	Adjustment Note details provided by suppliers can be recorded.	<p>The amount GST payable or input tax credits that can be claimed changes where all or part of the supply is cancelled, the consideration is altered or the GST category changes.</p> <p>Your supplier must provide Adjustment Notes where all or part of the supply is cancelled, the consideration is altered (eg. volume discounts, refunds, returns, etc.), the GST category changes or an incorrect GST amount has been charged, or where the original supply was of a value exceeding \$50. It must be produced within 28 days of a request by the agency. The Adjustment Note should include certain prescribed information as determined by the Commissioner of Taxation. These requirements are listed earlier within this manual.</p>	
P.7	The appropriate attribution rules for input tax credits can be applied.	<p>If the entity accounts on the cash basis, input tax credits are attributable to the tax period in which the entity makes a payment of the consideration or part of the consideration. If part of the consideration is paid, the input tax credit for only the part paid is attributed. Adjustments are attributable in the tax period in which the change in consideration is paid or received.</p> <p>If the entity accounts on the accruals basis, input tax credits are attributable to the earliest tax period in which the entity makes a payment of any of the consideration or it receives an invoice. Adjustments are attributable to the tax period in which the entity becomes aware of the need to make the adjustment.</p>	

Purchasing/Accounts Payable			
Ref.	System Requirement Description	Explanation/Applicability	Complies
P.8	Purchases from unregistered suppliers can be identified within records.	Input tax credits are not available for purchases from unregistered suppliers.	
P.9	No ABN provided by the supplier on invoice.	If no ABN is provided on invoice from a supplier, then the payer is required to deduct 48.5% PAYG withholding tax from the payment, except for payments to a tax-exempt entity and some other exceptions.	
P.10	Calculation of partial tax credits in special situations for acquisitions that relate to making financial supplies.	Certain acquisitions will result in entitlement to a partial input tax credit (provided for in regulations). <i>Only applicable if you make financial supplies.</i>	
P.11	Certain types of acquisitions that are not creditable can be recorded.	Input tax credits are not available for certain purchases or inputs. Some examples include non-deductible entertainment, non-deductible penalties and fines and the luxury car depreciation limit.	
P.12	The extent to which your entity provides or is liable to provide only part of the consideration for an acquisition can be recorded.	If you provide or are liable to provide only part of the consideration for an acquisition then you need to apportion the amount of input tax credit it can claim.	
P.13	Tax Invoices received electronically (or otherwise) can be readily accessed for five years.	Tax Invoices received electronically must be retained in a readily accessible form for five years.	
P.14	Recipient-created Tax Invoices can be produced.	In some situations, the Commissioner will determine in writing that Tax Invoices may be issued by the recipient of a taxable supply instead of the supplier. A recipient-created Tax Invoice is required to substantiate claims for input tax credits.	
P.15	The extent to which an acquisition is planned to be used for creditable purposes (i.e. adjustment events) can be monitored for the required period (up to 10 years) and changes recorded.	There may be a need to make adjustments on an annual basis for changes in use of acquisitions. The number of adjustments required will depend on the original cost of the acquisition. In general, if the GST exclusive cost of a supply was \$500,000 or more, then adjustments need to be considered for each of the 10 years following the year of purchase. If the GST exclusive cost is between \$5,000 and \$500,000, then adjustments need to be considered for 5 years. If the GST exclusive cost is between \$1,000 and \$5,000, then adjustments need to be considered for 2 years. Expert advice should be sought in this area, as the rules are complex.	

Purchasing/Accounts Payable			
Ref.	System Requirement Description	Explanation/Applicability	Complies
P.16	GST amounts in accounts paid or due, and adjustments, can be posted to the appropriate control account.	Accounting standards may require posting of GST credits and adjustments to suspense accounts.	
P.17	Ensure payment amounts and other GST details interfacing with other systems account for GST in an appropriate manner.	Depending on the use to which the information is put, information passed to interfacing systems may need to be adjusted to either include or exclude GST amounts and other details. For example, the Tax Invoices may be required to state prices net of GST with an additional line item for GST. The Business Activity Statement (in the current draft form) requires amounts to be disclosed on a gross basis.	
P.18	Deferred input tax credit claims	A deferred input tax credit claim would arise where a payment has been made or a liability recorded but without a valid Tax Invoice. The system will need to track such credits so that the credits can be reclaimed when Tax Invoices are received.	

GST Reporting/ Business Activity Statement (BAS)			
Ref.	System Requirement Description	Explanation/Applicability	Complies
R.1	A Business Activity Statement (BAS) can be produced within 21 days of the end of each tax period.	A BAS must be produced monthly or quarterly, depending on annual turnover or election. In some situations, an entity may switch tax periods. <i>BAS is required to be lodged electronically if your annual turnover is \$20 million or more. Other entities elect to lodge electronically.</i>	
R.2	BAS input tax credit calculations exclude acquisitions over \$50 for which no Tax Invoice is held, and from unregistered suppliers.	Input tax credits can only be claimed where a valid Tax Invoice is held or for supplies of values at less than \$50 and substantiating records exist.	
R.3	The BAS covers other tax liability amounts.	GST amounts can be offset against any other tax liability accounted for on the BAS.	
R.4	The BAS attributes GST payable to the tax period when the customer pays the consideration or part of the consideration.	For entities accounting for GST on a cash basis, GST payable, input tax credits and adjustments are attributable to specific tax periods.	
R.5	The BAS claims input tax credits in the tax period in which the agency makes a payment of the consideration or part of the consideration.	Tax periods are monthly if annual turnover is \$20 million or more, quarterly if annual turnover is less than \$20 million (unless elect monthly).	
R.6	The BAS reflects adjustments in the tax period in which the change in consideration is paid or received.		
R.7	If a part of a consideration is paid or received, the BAS reflects GST for only the part paid or received.		
R.8	The BAS attributes GST payable to the earliest tax period in which any payment is received or the entity issues an invoice.		For entities accounting for GST on an accruals basis, GST payable, input tax credits and adjustments are attributable to specific tax periods.
R.9	The BAS claims input tax credits in the earliest tax period in which the entity makes a payment of any of the consideration or it receives a Tax Invoice.	Tax periods are monthly if annual turnover is \$20 million or more, quarterly if annual turnover is less than \$20 million (unless elect monthly).	
R.10	The BAS reflects adjustments in the tax period in which the entity becomes aware of the need to make the adjustment (usually through an Adjustment Note).		

GST Reporting/ Business Activity Statement (BAS)			
Ref.	System Requirement Description	Explanation/Applicability	Complies
R.11	A Business Activity Statement can be issued electronically, with an 'electronic signature'.	BAS must be lodged electronically and monthly (any payment due made electronically) where annual turnover is \$20 million or more. If annual turnover is less than \$20 million, you may elect to lodge electronically. A BAS that is lodged electronically must contain your electronic signature.	
R.12	GST amounts owing can be paid within the prescribed timeframe.	Any GST liability payable to the ATO must be paid within 21 days of the end of the tax period.	
R.13	GST payments can be made electronically.	GST must be paid electronically and monthly if the annual turnover of the agency is \$20 million or more. If annual turnover is less than \$20 million, you may elect to pay electronically.	
R.14	Systems can provide GST information to the 'representative member' of a GST group or 'joint venture operator' of a GST joint venture.	Groups and joint ventures are treated as a single entity for GST purposes.	
R.15	Systems can accept GST information from entities that are members of a GST group or of a GST joint venture, where such arrangements exist.	The 'representative member' of a GST group or 'joint venture operator' of a GST joint venture must lodge a BAS covering all members. Essentially, the 'representative member' is responsible for paying GST on taxable supplies made by members and is entitled to an input tax credit on acquisitions made by members. Transactions between members are not taxable supplies. The system must be able to capture and separately identify GST payable and input tax credits creditable associated with each member, and ignore GST implications of transactions between members.	
R.16	The entity's annual turnover and projected annual turnover can be monitored.	Exceeding annual turnover thresholds may have significant GST impact for an entity. For example, the requirement to register, adopting appropriate tax periods and attribution methods depend on annual turnover.	

Transitional Requirements			
Ref.	System Requirement Description	Explanation/Applicability	Complies
T.1	For some contracts entered into before GST became law, there is transitional GST free classification.	For contracts entered into before 8 July 1999 supplies can be GST free until the earlier of 1 July 2005 or the first opportunity to vary the pricing to take account of GST or generally review the contract price. However if the other party to the contract cannot claim full input tax credits this concession only applies if the contract was made before 2 December 1998. This means that supplies you make under some contracts will not need to have GST charged – these may require identification in the system. <i>Not applicable if your entity did not enter into any contract to provide a supply before 8 July 1999 where the supply is delivered or made available after 1 July 2000.</i>	
T.2	Other GST credits can be recorded.	An entity may be entitled to other GST credits, such as for pre-establishment costs, second-hand goods, sales tax on selected inventory/trading stock held at 1 July 2000.	
T.3	The operation of GST processing applies to transactions occurring on or after 1 July 2000 – ie. the date of supply or acquisition must be recorded.	In general the GST system applies to supply or importation made on or after 1 July 2000. <i>This is a transitional requirement only.</i>	

Special Transactions			
Ref.	System Requirement Description	Explanation/Applicability	Complies
SP.1	Purchases of second-hand goods - special input tax credit	If you acquire second-hand goods from an unregistered supplier and subsequently sell them in a taxable supply, you may be entitled to an input tax credit on the original purchase in certain situations. The amount of the input tax credit for the second-hand goods is the lesser of 1/11 of the purchase price, or the amount of the GST payable on your subsequent sale. You do not need to hold a Tax Invoice to claim the credit.	
SP.2	Sale of freehold property - margin scheme	Generally, the construction, sale and leasing of all real property and buildings, whether new or used, will be subject to GST. There is a choice to calculate GST based on the <i>margin</i> (your tax inclusive sale price less your original purchase price) instead of on the full sale price. GST is calculated as 1/11 th of the margin. There are certain transitional rules if you held the real property and premises at 1 July 2000, which calculate the margin on the value of the property as at 1 July 2000.	
SP.3	50% GST reduction for long-term accommodation in commercial residential premises. For example, Caravan parks.	Long-term stays in commercial residential premises are given a lower value than would otherwise apply. Under certain circumstances, GST is reduced by 50%. Expert advice should be sought, as the rules are complex.	
SP.4	Financial supplies (reduced credit acquisitions)	In some cases, acquisitions relating to financial supplies can attract a reduced input tax credit, even though no input tax credit could arise under the basic rules. Expert advice should be sought, as the rules are complex.	
SP.6	Security deposits	GST does not apply to the taking of a deposit as security for the performance of an obligation (unless the deposit is forfeited or is applied as consideration). GST is not attributable prior to forfeiture.	
SP.9	Supplies in satisfaction of debts	A creditor may be liable for GST on supplies of a debtor's property where the supply is in satisfaction of a debt owed to the creditor.	

Special Transactions			
Ref.	System Requirement Description	Explanation/Applicability	Complies
SP.10	Construction agreements made before 1 July 2000	Broadly, construction projects spanning 1 July 2000 may be subject to GST, but only for the value supplied after that date. A valuation of work in progress (WIP) may be required as at 1 July 2000, or when certain transition arrangements cease. The WIP costing system may need to comply with the valuation methodology acceptable to the Commissioner. Draft GST bulletin GSTB 1999/2 has been issued by the ATO on the acceptable valuation methodologies.	
SP.11	Special GST credit for sales tax paid on stock	Councils holding sales tax-paid stock for resale will be allowed a special GST credit, equal to the sales tax paid on their stock, to be offset against their GST liability. This special credit will only be available in respect of sales tax-paid trading stock on hand as at 1 July 2000 but does not apply to stock held for the purposes of hire or manufacture. The credit will not be available for alcoholic beverages, which will be subject to alternative transitional arrangements that take account of excise on these products.	
SP.12	Phase in of input tax credits for new motor vehicles	Input tax credits for new motor vehicles will be phased in over two years. No input tax credits will be allowed in the GST's first year of operation, from 1 July 2000 to 30 June 2001. Half the value of the input tax credit will be allowed for purchases in the second year, from 1 July 2001 to 30 June 2002. Full input tax credits will be available for purchases from 1 July 2002. However, the phase in of input tax credits for new motor vehicles will not apply if you would have been entitled to exemption from sales tax on the purchase of motor vehicles.	

Appendix B - Letter to Suppliers

24 July 2003

<supplier contact>
<position>
<company>
<address>
<SUBURB> <STATE> <postcode>

Dear <supplier contact>

As you will be aware, the introduction of the Goods and Services Tax ("GST") regime, on 1 July 2000, will cause the prices of many products to change. The Government expects that the "pre-GST" price of many goods and services should decrease due to the abolition of sales tax, increases in diesel fuel rebates, and other tax reform measures. As a result, the total price increase to consumers, after the addition of GST, is expected to be less than 10% in most cases. The cost of goods and services to registered businesses such as <Council>, after claiming an input tax credit for the GST, will therefore decrease in many cases.

The Australian Competition and Consumer Commission ("ACCC") has been given the authority to monitor price levels over the GST implementation period. The ACCC has released a statement of general principles on price exploitation.

The focus of the ACCC is to ensure that entities pass on to consumers the benefits of cost savings that arise from the tax reform package. The ACCC has indicated that profit margins should not change as a result of the New Tax System. The ACCC's focus is on prices set by individual businesses and is primarily on *changes* in prices resulting from the tax reform, not on the *level* of prices. The ACCC's view is that the New Tax System changes are not to be seen as an opportunity for businesses to raise profits, even where profitability may be low.

The ACCC guidelines, in summary, are:

- Prices should be reduced to pass on the full effect of the tax reductions, as soon as tax reductions occur;
- Any increase in price based on the GST should include a full offset for other indirect tax reductions;
- No mark-up should be applied to the GST component of costs;
- Prices should reflect only actual, not anticipated, tax increases; and
- Businesses should not take the opportunity to increase the difference between cost and prices in dollar terms (the dollar margin rule).

There are serious penalties for price exploitation: the Federal Court may impose penalties of up to \$10 million for corporations and \$500,000 for individuals.

The ACCC has stated:

"It is important that businesses assess not only the direct impact on their own businesses of the tax changes but also the benefits they should expect to have passed on to them by their own suppliers. If the benefits are not provided by suppliers, it is desirable that the Commission be informed."

The ACCC expects that businesses will be able to justify, in specific terms, any change in prices resulting from the New Tax System changes.

In order for <Council> to comply with the stringent requirements of the ACCC we must ensure that our suppliers pass on cost savings to us. We are currently reviewing our costs, to assess the likely impact of the introduction of GST. Once this process is complete, we will have a better idea of where to expect cost savings. In the meantime, we request that you consider the likely impact of the GST on the cost of your products and supply us with details of your proposed post-GST prices (indicating the extent of price reductions being passed on). This is necessary to allow us to plan for the introduction of the GST. We would appreciate a response by <date>.

Also, as part of the New Tax System, we will require a complying tax invoice to be issued by you with any supplies made to <Council>. These must include your Australian Business Number. Failure to quote your ABN on an invoice will result in us withholding and forward to the Australian Taxation Office 48.5% of the amount payable to you.

If you have any queries in relation to this request please phone <Council contact> on <phone number>.

Yours sincerely,

Appendix C - Review of contracts

(i) Contract review Checklist

(For Use In Conjunction With Tree Diagram)

1. TITLE OF CONTRACT
eg Lease of Premises at 31 Alpha Street

2. PARTIES TO CONTRACT

3. IS CONTRACT IN WRITING? YES/NO
(eg formal typed bound document or exchange of faxes/letters etc)
4. IS THE CONTRACT PROPERLY EXECUTED? (SIGNED/STAMPED) YES/NO
5. WHEN WAS THE CONTRACT EXECUTED? _____
(eg Date of execution 10 June 1997)
 - (a) WAS CONTRACT EXECUTED PRIOR TO 2 DECEMBER 1998? YES/NO
 - (b) WAS CONTRACT EXECUTED PRIOR TO 8 JULY 1999? YES/NO
6. DOES THE CONTRACT IDENTIFY A SUPPLY OF GOODS OR SERVICES? YES/NO
IF YES, DESCRIBE SUPPLY:

7. DOES THE CONTRACT IDENTIFY THE CONSIDERATION IN MONEY? YES/NO
IF YES, DESCRIBE:

8. IS THERE OTHER CONSIDERATION? YES/NO
9. IS THE CONTRACT A CONSTRUCTION CONTRACT? YES/NO
10. DOES THE CONTRACT CONTAIN A "REVIEW OPPORTUNITY"? YES/NO
(REFER NOTE BELOW) IF YES, DESCRIBE AND REFERENCE

11. DOES THE CONTRACT CONTAIN ANY WARRANTY CLAUSES? YES/NO
12. BASED ON ABOVE, IS THE CONTRACT:
 - 11.1 ENTIRELY GST FREE? YES/NO
 - 11.2 GST FREE UNTIL 1 JULY 2005? YES/NO
 - 11.3 GST FREE UNTIL FIRST REVIEW OPPORTUNITY? YES/NO
 - 11.4 SUBJECT TO GST FROM 1 JULY 2000? YES/NO

REASON/COMMENTS:

13. WHAT ISSUES/OPPORTUNITIES ARISE WITH RESPECT TO THIS CONTRACT?
(eg price review, pass through of cost savings, etc)
-
14. WHAT IS THE NEXT STEP TO ACTION THESE ISSUES/OPPORTUNITIES?
-
15. IS/ARE THE OTHER PARTY(IES)?
- | | |
|--------------------|--------|
| (a) GST-FREE | YES/NO |
| (b) INPUT TAXED | YES/NO |
| (c) NOT REGISTERED | YES/NO |
| (d) FOREIGN | YES/NO |
16. COMMENTS/NOTES:
-
-

THIS FORM WAS COMPLETED BY:

NAME (Print): _____

POSITION/TITLE: _____

PHONE NUMBER: _____

SIGNATURE: _____

DATE: _____

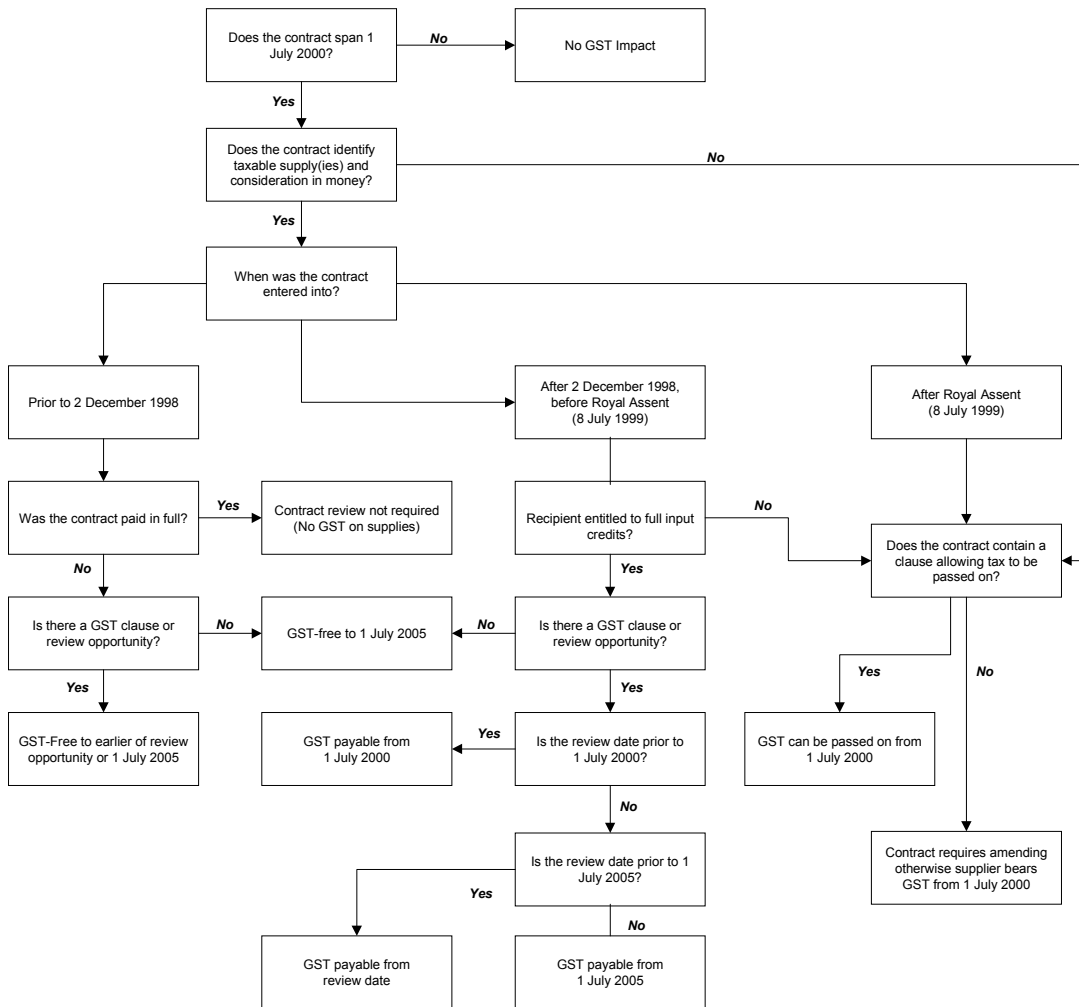
* * * * *

NOTE A "review opportunity" means an opportunity that arises under the Agreement:

- (a) for the supplier under the agreement (acting either alone or with the agreement of one or more of the other parties to the agreement) to change the consideration directly or indirectly because of the imposition of GST; or
- (b) for the supplier under the agreement (acting either alone or with the agreement of one or more of the other parties to the agreement) to conduct, on or after 1 July 2000, a general review, renegotiation or alteration of the consideration, or
- (c) for the supplier under the agreement (acting either alone or with the agreement of one or more of the other parties to the agreement) to conduct, before 1 July 2000, a general review, renegotiation or alteration of the consideration that takes account of the imposition of the GST.

The Australian Taxation Office has issued a draft ruling (GSTR 1999/D11) discussing various issues arising from the interpretation of "review opportunity". This can be found on the ATO's website (www.taxreform.ato.gov.au).

(ii) GST Contract Review Decision Tree



(iii) Contract Review Business Issues

1. Read contract as a whole, including any attachments, appendices or subsequent amendments.

Clauses generally should be read in the context of:

- a) the relationship between the parties as set out in the contract
- b) given ordinary/common usage to terms and phrases unless specifically defined

2. Contractual Relations

What is your relationship with your customers/suppliers like? Will any renegotiation required be:

- a) accepted; or
- b) unlikely?

3. Prioritise review

Important contracts with input-taxed recipients may require considerable time and effort to renegotiate. Generally speaking, recipients of taxable supplies who are able to claim input tax credits should be GST neutral, apart from cash flow implications, and therefore amendments should not be complicated.

4. GST Issues are not only in the Price

Turnover can be found in many contracts especially lease agreements, rent reviews etc, sometimes penalty clauses.

Can you:

- a) specifically exclude any GST you collect from turnover calculations.
- b) get turnover information quickly enough to fulfil your GST obligations.

ie, if you have been making a service charge based on a tenant's turnover, and you remit GST monthly but get turnover information quarterly, you may need to make GST return adjustments when final turnover figures are made available to you.

Can you get confirmation on whether turnover figures do or do not contain GST, and if you deduct expenses, can you check whether they are net of or include GST.

5. Software Suppliers

If you are buying accounting/management software, does the provider give you GST compliant software for free, or will you need to renegotiate or find an alternative?

6. Anti-avoidance

Is any arrangement primarily designed for GST benefit, which includes timing (bring forward refund, delay payment).

7. Expert valuations

Not only will their charges be subject to GST, but consider:

- a) you may need more than one expert report or valuation.
- b) all these reports take time, and if you are on short GST reporting periods you will be carrying the GST cash flow cost.

8. Is it a sale of business contract?

If so, are you selling "all things" including land, patents etc?

9. Non-monetary consideration

Are there any set off clauses, or barter arrangements, or other non-cash type things (options)?

If so, timing of tax invoice exchanges etc will need to take into account the cash flow implications.

Are barter arrangements at a demonstrable arms length price?

10. Administration

Are issues such as tax invoices, adjustment notes and other communications adequately dealt with?

11. Delays

Contracts may extend beyond 1 July 2000 due to unforeseen circumstances.

Appendix D – Related Internet Sites

Welcome to Tax Reform	www.taxreform.ato.gov.au
Australian Taxation Office	www.ato.gov.au
Australian Consumer & Competition Commission (ACCC)	www.accc.gov.au
Government Business Entry Point	www.business.gov.au
Australian Customs Service	www.customs.gov.au
GST Start Up	www.gststartup.gov.au
Treasury	www.treasury.gov.au
Treasury Tax Reform	www.taxreform.gov.au
Treasury Review of Business Taxation	www.rbt.treasury.gov.au