

BENEATH THE SURFACE

GST: What you need to know!

MOST COMMON BAS ERRORS

It is best practice to keep a worksheet with **every** BAS, so that if you are audited at any time, you have a permanent record of your detailed calculations.

Overclaiming GST Credit Entitlements

- ◇ Claiming GST credits when you do not hold a valid tax invoice for all purchases that are >\$55 GST-inclusive (some relaxation of this provision for certain corporate credit card holders). If unsure about an ABN, or GST-registration status, check the register www.abr.business.gov.au
- ◇ Claiming one-eleventh of:
 - ⇒ business name renewal
 - ⇒ car registration
 - ⇒ bank fees and charges (NB: merchant fees do have GST)
 - ⇒ rates
 - ⇒ Australian Security and Investment Commission fees, eg annual company registration
 - ⇒ stamp duty, eg on insurance policies
 - ⇒ table purchased from a garage sale
 - ⇒ a contractor's fees, eg cleaner/gardener/consultant who is not registered, or required to be registered, for GST
 - ⇒ tea, coffee, milk, sugar for morning and afternoon teas
 - ⇒ income protection insurance
 - ⇒ residential rental property expenses, eg plumber, electrician, gardener, etc
 - ⇒ penalties, eg traffic infringement notice
 - ⇒ non-income tax deductible costs, eg client entertainment expenses for a restaurant or coffee shop meal
 - ⇒ minor exempt fringe benefit costs – if certain conditions are met some fringe benefits, eg Christmas party and/or gift, may be exempt from fringe benefits tax, if so, it is also non-income tax deductible and thus not entitled to GST credits
 - ⇒ total price of a car that exceeds the luxury car limit threshold of \$57,009* GST-inclusive – GST entitlement is limited to 1/11th of \$57,009, ie \$5,183 (*current at time of printing)
 - ⇒ driver's licence renewal
 - ⇒ private health insurance
 - ⇒ ambulance levy shown on electricity invoices

Could YOU be making these common GST errors?

- ⇒ claiming GST credits on motor vehicle comprehensive insurance and compulsory third party insurance when you have classed your vehicle as **private** with your insurer (to get lower premiums) – check your declared tax invoice GST entitlement percentage before claiming GST credits
- ⇒ commercial rental outgoings when landlord is not registered for GST
- ⇒ business goods taken for your own personal use, eg herbs, shampoo, etc
- ◇ Claiming one-eleventh of the **private** portion of business expenses, eg
 - ⇒ motor vehicle (NB: if a fringe benefit, there is no private portion for GST purposes)
 - ⇒ computer (including internet expenses)
 - ⇒ home-office expenses: building insurance, contents insurance, electricity, gas, security, etc
 - ⇒ telephone
 - ⇒ relative's share of travel expenses (NB: if a fringe benefit, then OK to claim GST)

Other Common Errors

- ◇ Not recording the sale of a business motor vehicle, computer, desk, etc at G1.
- ◇ Not including GST in the sale price/trade-in value of a business motor vehicle, computer, desk, etc (see further notes below on GST and cars).
- ◇ Claiming GST credits for that percentage of car expenses that relates to work-related duties or in connection with a rental property investment.
- ◇ Using incorrect accounting method – your BAS form states whether you are using the cash (ie you account for GST either when you get paid, or when you pay something) or the non-cash method (ie you account for GST on invoice, whether paid or not). NB: if you are using the cash accounting method for GST, but not for income tax purposes, and your business turnover is expected to exceed \$1 million, you must change to the non-cash accounting method and notify the tax office.



- ◇ GST cash remitters claiming all the GST at once for Yellow and White Pages directory listings – claim 1/11th only of amount **paid**, not the amount invoiced.
- ◇ Not recording the sale price of a business, including any GST at item G1 – NB: if intending to take advantage of the GST-free sale of a going concern provisions, please get **both** tax and legal advice **well** prior to signing any documents – there are many items on the checklist and sometimes leaving out one only, negates your entitlement for the sale to be GST-free. (The other advantage of early advice is that you may also meet the checklist of items to enable taking advantage of the various small business capital gains tax concessions).
- ◇ Including wages, superannuation contributions, fringe benefits tax and even owner's drawings at item G11 on a BAS. Wages should be reported at W1 only – the other items are not required to be reported on a BAS.
- ◇ Not including total sales at G1, eg all cash receipts which are subsequently used to pay business expenses, must be included in total sales. Also if you are a practitioner and work in a clinic whereby you receive 60% of your client fee and the 40% is retained for rent, you must include 100% of your fees at G1.
- ◇ Zero activity statements still need to be lodged – unless your form expressly states otherwise.
- ◇ GST cash remitters claiming GST credits at the commencement of a hire purchase or lease contract, rather than at the time a **repayment** is made. (NB: a chattel mortgage would allow GST cash remitters to claim GST credits upfront).
- ◇ Claiming full GST credits on the purchase of real property (or deposit for same) at the time of entering into a standard land contract – GST credits are to be claimed for the tax period in which **settlement** occurs. (NB: capital gains tax calculations are based on contract, not settlement, dates).
- ◇ Understating instalment income at T1 – this figure must include all your earnings, including direct credits to your bank account, interest income, dividends, all cash (even if it has been used to pay expenses), bartering transactions, expected partnership and trust income, etc.
- ◇ Reporting **net** income (ie gross minus expenses) at T1 – your instalment percentage (pre-printed on your form) has already taken your expenses into account. Report gross sales/fees/income at this label.



Include GST in the trade-in/sale price of your business vehicles.

- ◇ If you sell your services to a related entity/ family member for less than market value, your GST liability is 1/11th of the market value (not 1/11th of the sale price).
- ◇ Not complying with Division 129 adjustment events (see further detail below).

GST & CARS

When trading in a business motor vehicle (either full or partial business use), then you must include GST in the trade-in/sale price. In certain circumstances, less than 100% of this GST is remitted to the tax office:

- ◇ No GST credit on purchase = remit full GST on sale
- ◇ Partial GST credit on purchase = remit partial GST on sale

Cents per kilometre

The most common method for individuals to claim an income tax deduction for deductible car usage that does not exceed 5,000 kms per year, is via the cents per kilometre method. The assumed extent of GST credits for this method is as below:

Estimated Business kms/year	Assumed Extent of GST Credits
0-1250	5%
1251-2500	10%
2501-3750	15%
3751-5000	20%

ADJUSTMENTS UNDER DIVISION 129

This often catches most by surprise - they are not GST mistakes. GST credits are based on **planned** business usage. If this changes over time, so too does your entitlement to GST credits. Most likely with cars, major car repairs, computers, etc.

Adjustments (G7 and G18) are made once a year. The GST-exclusive value of the item determines how many adjustment periods you will have. The first adjustment period must start at least 12 months after the end of the tax period in which the GST credits are first claimed, and are usually included in the next June BAS, eg

- ◇ GST claimed in Sep 04 at planned 60% business usage
- ◇ actual usage turned out to be 75%
- ◇ twelve months after Sep 04 is Sep 05
- ◇ the next June BAS after Sep 05 is Jun 06 for the GST adjustment event

GST Exclusive Value of Acquisition/ Purchase	No of Adjustment Periods
\$1,000 or less	Nil
\$1,001 to \$5,000	2
\$5,001 to \$299,999	5
\$500,000 or more	10

CORRECTING GST MISTAKES - For Businesses with less than \$20m turnover

These guidelines are for correcting genuine GST mistakes and do not apply to *adjustments* as described above, or to deliberate deferral of GST obligations. Normally you simply revise the appropriate activity statement, but there are some situations whereby you can correct on a later statement.

GST credits can be claimed at any time – neither of the limits apply. If your correction involves decreasing GST credits or increasing GST to be paid (ie taxpayer owes money to the ATO in both), then both time and correction limits apply. If you have overpaid GST in error, then only the correction (not time) limits apply.



Time limits - on your **next** activity statement for up to 18 months. Where the mistakes occur outside this time limit, you must revise each of your original activity statements that the mistakes occurred in.

Correction limits - on your next activity statement, only if their net effect is less than \$5,000. This dollar limit is the total GST effect of *all* the errors occurring in earlier BAS's. They are not a 'per BAS' or 'per mistake' limit. If exceeded, each of your original activity statements, that the mistakes occurred in, must be revised.

ACCEPTABLE APPORTIONMENT METHODS

While the following are not the only methods, if you use them the Commissioner will accept that you have correctly calculated your extent of deductible usage where those logged periods reflect your *actual* usage:

- ◇ **Computer (including Internet expenses)** – reasonable estimate based on a diary or log of the use of your computer kept for one month.
- ◇ **Home Office Expenses:**
 - ⇒ insurance and other occupancy expenses – reasonable estimate calculated on floor area. If the insurance relates to contents, a valuation basis may also be appropriate
 - ⇒ electricity – reasonable estimate based on diary or log of your use of the home office kept for one month; and
 - ⇒ other running expenses – reasonable estimate based on a diary or log of your use of the home office kept for one month.
- ◇ **Telephone expenses** – reasonable estimate based on a diary or log of the use of your computer kept for one month.

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