



Input tax credits and hire purchase - acquisition of a car -

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Financial Services: Questions and Answers

Input tax credits and hire purchase – acquisition of a car

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If a recipient accounts for GST on a cash basis, how does the recipient calculate entitlement to input tax credits where the hire purchase agreement is for the acquisition of a car that is subject to the car input tax credit limit under section 69-10 of the GST Act?

1. A recipient that accounts for GST on a cash basis will be entitled to input tax credits to the extent of any payments made for the acquisition during a tax period. This means that the recipient will be entitled to an input tax credit equal to GST payable on each repayment of principal made during a tax period.
2. However, input tax credits can only be claimed in respect of the acquisition of the car until the car input tax credit limit imposed by section 69-10 of the GST Act is reached (\$5,182 in 2002-03). No further input tax credits can be claimed once the limit is reached, notwithstanding that further repayments of principal are made under the hire purchase agreement.
3. To determine the principal component of a hire purchase repayment, refer to Question 1.15. When the car is subject to luxury car tax (LCT), this amount should be excluded from the calculation of available input tax credits. The recipient will, therefore, claim input tax credits equal to 1/11th of the LCT exclusive principal component of each repayment, until the car input tax credit limit is reached.