

# ***GSTR 2001/8 - Goods and services tax: Apportioning the consideration for a supply that includes taxable and non-taxable parts***

! This cover sheet is provided for information only. It does not form part of *GSTR 2001/8 - Goods and services tax: Apportioning the consideration for a supply that includes taxable and non-taxable parts*

! This ruling is being reviewed as a result of a recent court/tribunal decision. Refer to Decision Impact Statement Pty Ltd (Published 19 April 2011).

! Note: Some provisions ruled on in this ruling may have been amended. As a result, you may no longer be able to rely on this ruling. For more information, see <http://ato.gov.au/General/Rulings-and-ATO-view/In-detail/Public-rulings--overview/Changes-to-GST-public-rulings> to check how this ruling is likely to be affected by the change in the law. ((Note added on 16 July 2010)) ((Note added on 16 July 2010))

! This document has changed over time. This is a consolidated version of the ruling which was published on 26 October 2010.

## **GSTR 2001/8 History Draft Addendums**

| <b>Date</b>     | <b>Version</b> | <b>Change</b>  |
|-----------------|----------------|--|
| 26 October 2010 |                | <u>Draft Consolidated Ruling</u> <u>Draft Addendum #</u> |

# Finalised by Addendum Issued on 11 April 2012



## Goods and Services Tax Ruling

### Goods and services tax: apportioning the consideration for a supply that includes taxable and non-taxable parts

|                                  |                |
|----------------------------------|----------------|
| Contents                         | Para           |
| <b>What this Ruling is about</b> | <b>1</b>       |
| <b>Date of effect</b>            | <b>8</b>       |
| <b>Context</b>                   | <b>9</b>       |
| <b>Ruling</b>                    | <b>15</b>      |
| <b>Explanation</b>               | <b>31</b>      |
| <b>Detailed contents list</b>    | <b>123</b>     |
| <b>Appendix A</b>                | <b>Page 30</b> |

#### ***Preamble***

*This document was published prior to 1 July 2010 and was a public ruling for the purposes of former section 105-60 of Schedule 1 to the Taxation Administration Act 1953.*

*From 1 July 2010, this document is taken to be a public ruling under Division 358 of Schedule 1 to the Taxation Administration Act 1953.*

*A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.*

*If you rely on this ruling, the Commissioner must apply the law to you in the way set out in the ruling (unless the Commissioner is satisfied that the ruling is incorrect and disadvantages you, in which case the law may be applied to you in a way that is more favourable for you - provided the Commissioner is not prevented from doing so by a time limit imposed by the law). You will be protected from having to pay any underpaid tax, penalty or interest in respect of the matters covered by this ruling if it turns out that it does not correctly state how the relevant provision applies to you.*

*[Note: This is a consolidated version of this document. Refer to the Tax Office Legal Database (<http://law.ato.gov.au>) to check its currency and to view the details of all changes.]*

## **What this Ruling is about**

1. This Ruling explains how you can identify whether a supply includes taxable and non-taxable parts under the *A New Tax System (Goods and Services Tax) Act 1999* (the GST Act).
2. The Ruling describes the characteristics of supplies that contain taxable and non-taxable parts. It refers to these supplies as mixed supplies. It also describes the characteristics of supplies that appear to have more than one part but that are essentially supplies of one thing. These supplies are referred to as composite supplies.

3. The Ruling provides methods and examples that you may use to help you work out how to apportion the consideration for a mixed supply. This means that you can identify the consideration for the taxable part of the supply. The Ruling explains that you do not need to apportion the consideration for a composite supply.
4. The Ruling also discusses how you can work out the value of the taxable part of a mixed supply under sections 9-75 and 9-80 of the GST Act.
5. This Ruling also applies to the valuation of the separate parts of a mixed supply that includes food. Goods and Services Tax Determination GSTD 2000/6 explains the circumstances where a supply of food packaging is GST-free.<sup>1</sup> If both the rule stated in paragraph 7 of Goods and Services Tax Determination GSTD 2000/6 and the approach given in paragraph 21 of this Ruling apply to a supply that you make, then you may choose either approach.
6. This Ruling does not deal with the apportionment of input tax credits. Goods and Services Tax Ruling GSTR 2000/15 is about determining the extent of creditable purpose for claiming input tax credits and for making adjustments in the extent of creditable purpose. It also explains several possible methods for determining the extent of creditable purpose.
7. Unless otherwise stated, all legislative references in this Ruling are to the GST Act.

## Date of effect

---

8. This Ruling explains the Commissioner's view of the law as it applies both before and after its date of issue. You can rely upon this Ruling on and from its date of issue for the purposes of section 105-60 of Schedule 1 to the *Taxation Administration Act 1953* (TAA). Goods and Services Tax Ruling GSTR 1999/1 explains the GST rulings system and the Commissioner's view of when you can rely on this interpretation of the law in GST public and private rulings.

---

<sup>1</sup> Paragraph 7 of Goods and Services Tax Determination GSTD 2000/6 provides a rule to use so that where GST-free food is contained in packaging that might not otherwise be normal and necessary, the packaging may be treated as if it were normal and necessary and, therefore, GST-free. This rule only applies to packaging. It does not apply to promotional items accompanying the food and packaging or to items that are usually supplied separately.

8A. The Addendum to this Ruling that issued on 29 April 2009 explains the Commissioner's view of the law as it applies both before and after its date of issue. You can rely upon this Addendum on and from 29 April 2009 for the purposes of section 105-60 of Schedule 1 to the TAA.

## Context

---

9. You pay GST if you make a taxable supply.<sup>2</sup> However, a supply is not taxable to the extent that:

- it is GST-free;<sup>3</sup>
- it is input taxed;<sup>4</sup>
- a section of the GST Act states it is not a taxable supply;<sup>5</sup> or
- it does not meet the taxable supply requirements of paragraphs 9-5(a) to (d).

In this Ruling, we refer to a supply (or part of a supply) that is not taxable as being non-taxable.

10. A supply may be characterised as consisting of one or more things or parts. That is, the supply may be regarded as commercially distinct in its own right or it may be regarded as having several identifiable parts.<sup>6</sup>

11. Where you make a supply that is identifiable as having more than one part and each part is taxable, you do not need to apportion the consideration for the supply. This is because GST is payable on the whole supply. Similarly, if all of the parts of a supply are identifiable as being non-taxable, GST is not payable on any part of the supply.

12. However, where you make a supply that is a combination of separately identifiable taxable and non-taxable parts, you need to identify the taxable part of the supply. Then you can apportion the consideration for the supply and work out the GST payable on the taxable part of the supply.

---

<sup>2</sup> Subsection 7-1(1) and section 9-40.

<sup>3</sup> Section 9-5 gives effect to subsection 9-30(1) and Division 38 to the extent that a supply is GST-free.

<sup>4</sup> Section 9-5 gives effect to subsection 9-30(2) and Division 40 to the extent that a supply is input taxed.

<sup>5</sup> See Appendix A for examples.

<sup>6</sup> Paragraph 9-10(2)(h) provides that a supply may include a combination of things.

13. A supply that may at first appear to be one thing may contain taxable and non-taxable parts on closer analysis. For example, a supply by way of a lease of goods, or a supply of rights or services used or consumed partly in Australia (taxable) and partly outside Australia (GST-free) may be regarded as having more than one part.<sup>7</sup>

14. On the other hand, a supply that may at first appear to be a combination of taxable and non-taxable parts, is not a mixed supply if it is given a specific treatment under the GST Act. For example, a supply consisting of a combination of foods that comes within paragraph 38-3(1)(c) is not a mixed supply because the whole supply is treated as food that is not GST-free.

## **Ruling**

---

15. You need to consider all of the circumstances of a supply to work out whether the supply is mixed or composite. GST is only payable on the taxable part of a mixed supply. If a composite supply is taxable, then GST is payable on the whole supply. If a composite supply is non-taxable, then no GST is payable on the supply.

### **Mixed supply**

16. A mixed supply is a supply that has to be separated or unbundled as it contains separately identifiable taxable and non-taxable parts that need to be individually recognised. Paragraphs 45 to 54 explain what are separately identifiable parts.

### **Composite supply**

17. If you make a supply that contains a dominant part and the supply includes something that is integral, ancillary or incidental to that part, then the supply is composite. You treat a composite supply as a supply of a single thing. Paragraphs 55 to 63 explain what are integral, ancillary or incidental parts.

18. A composite supply is either taxable or non-taxable. It may also be a part of a larger mixed supply.

---

<sup>7</sup> See section 38-187 and subsection 38-190(1).

**Differentiating between mixed and composite supplies**

19. Where a transaction comprises a bundle of features and acts, you must consider all of the circumstances of the transaction to ascertain its essential character. You also need to consider the effect the GST Act has on the supply or any of its individual parts. You can then determine whether the transaction is a mixed supply because it has separately identifiable parts that the GST Act treats as taxable and non-taxable, or whether it is a composite supply because one part of the supply should be regarded as being the dominant part, with the other parts being integral, ancillary or incidental to that dominant part.

20. The distinction between parts that are separately identifiable and things that are integral, ancillary or incidental, is a question of fact and degree. In deciding whether a supply consists of more than one part we take the view that you adopt a commonsense approach.

21. You may choose to treat something (or things taken together) as integral, ancillary or incidental if the consideration that would be apportioned to it (if it were part of a mixed supply) does not exceed **the lesser of:**

- \$3.00; or
- 20% of the consideration for the total supply.

22. If you choose not to apply this approach, then you need to make an objective assessment about whether the thing is integral, ancillary or incidental.

23. You cannot use this approach where a provision of the GST Act specifically requires you to treat a part of a supply in a particular way, regardless of its scale or connection with the supply. For example, the supply of food as part of an excursion or field trip may otherwise be considered to be integral, ancillary or incidental to the supply of the excursion or field trip, but paragraph 38-90(2)(b) specifies that such food will not be GST-free. This means that the consideration for the field trip requires apportionment.

24. A part of a supply may, on an objective assessment, be something that forms an integral, ancillary or incidental part of the supply even if the consideration for it would exceed the lesser of \$3.00 or 20% of the consideration for the total supply.

**Apportioning a mixed supply**

25. GST is payable on a mixed supply that you make, but only to the extent that the supply is taxable. You need to apportion the consideration for a mixed supply between the taxable and non-taxable parts to find the consideration for the taxable part.

26. You can use any reasonable method to apportion the consideration for a mixed supply. The method you use must be supportable in the particular circumstances.
27. You should keep records that explain the method you use to apportion a mixed supply.<sup>8</sup>

## Calculating the GST payable on the taxable part of a mixed supply

28. The amount of GST payable on a taxable supply is 10% of the value of the taxable supply.<sup>9</sup> The application of sections 9-70, 9-75 and 9-80 to a mixed supply gives an amount of GST payable of 10% of the value of the taxable part of the mixed supply.
29. To work out the value of the taxable part of a mixed supply, you identify the parts of the supply and apportion the consideration to each of the parts. The value of the taxable part is 10/11 of the consideration for the taxable part, and the GST payable is equivalent to 1/11 of that consideration.<sup>10</sup>
30. Paragraphs 114 to 119 explain how you calculate the GST payable on the taxable part of a mixed supply.

## Explanation

31. GST is structured around the concept of supply. It is the character of the supply that determines its GST treatment. Therefore, to determine how GST applies to a transaction, it is necessary to analyse the character of the supply.
32. The scheme of the GST Act depends on a clear distinction being made between taxable and non-taxable supplies. The GST Act provides that a taxable supply comes within its ambit, but not to the extent that it contains any non-taxable parts. Parts may be non-taxable if they are GST-free, input taxed, otherwise made non-taxable by a provision of the GST Act, or if they do not meet the requirements of paragraphs 9-5(a) to (d).
33. GST is payable on taxable supplies. Section 9-5 states that:
- ‘You make a **taxable supply** if:
- (a) you make the supply for consideration; and

<sup>8</sup> Paragraph 70(1)(d) of the *Tax Administration Act 1953*.

<sup>9</sup> Section 9-70.

<sup>10</sup> Subsection 9-75(1) provides that the value of a taxable supply is 10/11 of the price of the supply.

- (b) the supply is made in the course or furtherance of an enterprise that you carry on; and
- (c) the supply is connected with Australia; and
- (d) you are registered, or required to be registered.

However, the supply is not a taxable supply to the extent that it is GST-free or input taxed.<sup>7</sup>

34. Also, the meaning of *taxable supply* is affected by other provisions of the GST Act.<sup>11</sup> Appendix A includes things that the GST Act specifies are not a taxable supply or are to be treated as if they were not a taxable supply. This means that a supply that might otherwise meet the criteria required of a taxable supply will not be taxable.

35. Subdivision 9-C states how you work out the GST payable on a taxable supply. The amount of GST is 10% of the value of the taxable supply.<sup>12</sup> You work out the value of a taxable supply from the price of the supply.<sup>13</sup> Where the consideration for the supply is expressed as an amount of money, the price is the amount payable on the supply. If the consideration (or part of it) is not expressed as an amount of money, the price is (or includes) the GST inclusive market value of the consideration.

36. Section 9-80 deals with supplies that are partly taxable, and partly GST-free or input taxed. It describes how you work out the value of the part of such a supply that is a taxable supply.

37. If all of the parts in a supply have the same GST treatment, then there is no requirement to separately identify each part. That is, if all of the parts are taxable, then apportionment of the consideration is not necessary as GST is payable on the total value of the supply.<sup>14</sup> Similarly, if all of the parts are non-taxable, then no GST is payable on the supply and apportionment is not necessary.

38. This Ruling does not apply to supplies that simply involve one thing, for example, the supply of a cake. The cake is made from ingredients such as flour, butter, sugar and eggs, but it is readily apparent that only the cake is supplied.

---

<sup>11</sup> Section 195-1 states that *taxable supply* has the meaning given by sections 9-5, 78-50, 84-5 and 105-5. Note: This meaning is also affected by sections 49-30, 66-45, 72-5, 78-25, 78-60, 78-65, 78-70, 81-10, 90-5, 100-5 and 113-1.

<sup>12</sup> Section 9-70.

<sup>13</sup> Subsection 9-75(1).

<sup>14</sup> Section 9-70.

39. However, other supplies are more complex and contain (or may appear to contain) more than one part. In these cases, you need to further analyse the supply to determine its character and GST treatment.<sup>15</sup>

### **Differentiating between mixed and composite supplies**

40. Overseas courts have considered a number of cases about whether a supply is mixed or composite.<sup>16</sup> They have considered a supply as being mixed where its parts are separately recognisable or have an aim in themselves. On the other hand, they regard a supply as composite where it contains, or appears to contain, several parts that may objectively be treated as if they are simply a supply of a single thing. The terms they have used in describing subordinate parts of a composite supply include ‘incidental’, ‘integral’, ‘ancillary’, and ‘physically and economically indissociable’.<sup>17</sup> Some of these terms have been used interchangeably, but all import the concepts of scale and connection.

---

<sup>15</sup> For example, the supply to an Australian resident of global television rights may appear to be a supply of one thing, but in fact, it is comprised of a taxable part (the part for use in Australia), and a GST-free part (the part for use outside Australia). Examples 2 to 8 and 14 to 18 provide further instances of mixed supplies. Examples 9 to 13 provide instances of composite supplies.

<sup>16</sup> For example: *Bophuthatswana National Commercial Corporation Ltd v. Customs and Excise Commissioners* [1993] BVC 194; *British Airways plc v. Customs and Excise Commissioners* (1990) 5 BVC 97; *Card Protection Plan Ltd v. Customs and Excise Commissioners* [1999] BVC 155; *Card Protection Plan Ltd v. Customs and Excise Commissioners* [2001] UKHL 4 [2001] BVC 158; *Customs and Excise Commissioners v. British Telecommunications plc* [1999] BVC 306; *Customs and Excise Commissioners v. Madgett (t/a Howden Court Hotel)* (Joined Cases C-308/96 and C-94/97) [1998] BVC 458; *Customs and Excise Commissioners v. Wellington Private Hospital Ltd* [1997] BVC 251; *E.C. Commission v. United Kingdom* (Case No. 353/85) (1988) 3 BVC 265; *Sea Containers Ltd v. Customs and Excise Commissioners* [2000] BVC 60; and *United Biscuits (UK) Ltd (t/a Simmers) v. Customs and Excise Commissioners* [1992] BVC 54.

<sup>17</sup> For example, in *Customs and Excise Commissioners v. Wellington Private Hospital* [1997] BVC 251, Millett LJ uses the words ‘incidental’ and ‘ancillary’ interchangeably when considering whether or not the supply of drugs related to hospital treatment was a single (composite) or multiple (mixed) supply. In *British Airways plc v. Customs and Excise Commissioners* (1990) 5 BVC 97 at 101, Lord Donaldson MR said ‘... the tribunal [at first instance] stated the right question, viz., was the supply of food and beverages incidental – ‘integral’ might perhaps be a better word – to the air transportation.’ In *Customs and Excise Commissioners v. Wellington Private Hospital Ltd* [1997] BVC 251, the concept of ‘physically and economically indissociable’ was discussed.

41. We agree with the line of reasoning that has emerged from the overseas cases and with the commonsense approach used to objectively assess the characteristics of a supply. This means that you should take an overall view of the circumstances of a transaction that comprises a bundle of features and acts. This will enable you to determine whether you should regard the supply as having several distinct parts or whether it is the supply of a single thing. Lord Slynn of Hadley took this approach in *Card Protection Plan Ltd v. Customs and Excise Commissioners*, where the European Court of Justice's earlier judgment was applied.<sup>18</sup> It was stated that the court was to have regard to all the circumstances in which a transaction takes place to determine its essential features.<sup>19</sup>

42. In this Ruling, we have used the words integral, ancillary and incidental to assist in determining whether or not a part of a supply needs to be individually recognised or separately identified.<sup>20</sup>

43. A mixed supply contains separately identifiable parts where one or more of the parts is taxable and one or more of the parts is non-taxable. None of these parts is integral, ancillary or incidental in relation to the whole supply. On the other hand, a composite supply is a supply of one dominant part that has other parts that are not treated as having a separate identity as they are integral, ancillary or incidental to the dominant part of the supply.

44. In working out whether you are making a mixed or composite supply, the key question is whether the supply should be regarded as having more than one separately identifiable part, or whether it is essentially a supply of one dominant part with one or more integral, ancillary or incidental parts.

### **Separately identifiable parts**

45. In many circumstances, it will be a matter of fact and degree whether the parts of a supply are separately identifiable, and retain their own identity. In the United Kingdom case of *Sea Containers Ltd v. Customs and Excise Commissioners* (*Sea Containers*), day train excursions were provided together with elaborate 'fine wining and

---

<sup>18</sup> See *Card Protection Plan Ltd v. Customs and Excise Commissioners* [2001] UKHL 4; [2001] BVC 158 and *Card Protection Plan Ltd v. Customs and Excise Commissioners* [1999] BVC 155.

<sup>19</sup> See *Card Protection Plan Ltd v. Customs and Excise Commissioners* [1999] BVC 155 at 177.

<sup>20</sup> The word 'incidental' has a specific meaning when used with 'financial supplies'. See *A New Tax System (Goods and Services Tax) Regulations 1999*, regulation 40-5.10. However, in this Ruling we use the term 'incidental' in its ordinary sense, in the same way as used in the overseas cases.

dining'.<sup>21</sup> Advertising for the excursions placed significant emphasis on the food, wine and attentive service provided.

46. The question in *Sea Containers* was whether the supply was of transport or of transport and catering (a mixed supply).<sup>22</sup> It was decided that the proper approach was to see whether the catering element was significant in its own right or whether it was merely ancillary to the provision of transport. Keene J said:

'The evidence shows that it [the catering] constituted a very important element in its own right in what was being provided by the appellant. Its significance in these transactions went well beyond the point where it could be seen merely as a way of better enjoying the transport element. ...it constituted for customers an aim in itself. Not, of course, the sole aim but, given its prominence in the marketing literature, clearly a separate aim from the travel element.

The emphasis upon this aspect of the facilities provided is very striking. The fine meals and wines were a vital part of what the customer was paying for, whether by way of a separate or an all-inclusive price.'<sup>23</sup>

47. *Sea Containers* can be contrasted with *British Airways plc v. Customs and Excise Commissioners (British Airways)*, another United Kingdom case.<sup>24</sup> In this case, the question was whether British Airways was to be taken as making supplies of air transport and of catering services (a mixed supply), or a single supply of air transport with the catering services being merely integral or ancillary (a composite supply).

48. In *British Airways*, the Court of Appeal found that the provision of in-flight catering was, in substance and reality, an integral part of the supply of air transportation. It was not a mixed supply. Stuart-Smith LJ said:

'While something that is necessary for the supply will almost certainly be an integral part of it, the converse does not follow ... Catering facilities are part of and integral to the transportation in that degree of comfort which British Airways have decided is commercially appropriate and indeed necessary to attract passengers.'<sup>25</sup>

---

<sup>21</sup> *Sea Containers Ltd v. Customs and Excise Commissioners* [2000] BVC 60.

<sup>22</sup> Under British VAT legislation, transport is 'zero-rated' and catering is 'standard-rated'.

<sup>23</sup> *Sea Containers Ltd v. Customs and Excise Commissioners* [2000] BVC 60 at 67.

<sup>24</sup> *British Airways plc v. Customs and Excise Commissioners* (1990) 5 BVC 97.

<sup>25</sup> *British Airways plc v. Customs and Excise Commissioners* (1990) 5 BVC 97 at 102-103.

49. The Court was also influenced by the fact that no separate charge was made for the in-flight catering, and the price of the air ticket did not vary, regardless of the type of meal provided or whether or not meals were provided. It was not part of the contractual obligation of the airline to supply meals, even if meals were expected as part of the service. Customers could not obtain a refund if a meal was not served on their flight.

50. *Sea Containers* and *British Airways* show that different conclusions may be reached after taking into account the relevant facts of cases that are similar.

51. In *Customs and Excise Commissioners v. Wellington Private Hospital Ltd (Wellington)*, Millett LJ also considered the question of separate identity:

‘The proper inquiry is whether one element of the transaction is so dominated by another element as to lose any separate identity as a supply for fiscal purposes, leaving the latter, the dominant element of the transaction, as the only supply. If the elements of the transaction are not in this relationship with each other, each remains as a supply in its own right with its own separate fiscal consequences.’<sup>26</sup>

Millett LJ also found that courts need to ask whether one part is connected with the other, or whether the two parts are ‘physically and economically dissociable’.<sup>27</sup>

52. *Wellington* supports the view expressed in this Ruling that a supply has separately identifiable parts where the parts require individual recognition and retention as separate parts, due to their relative significance in the supply. This view applies where the supply is comprised of a mix of separate things, such as various combinations of goods and services, including the provision of advice.

53. Also, a supply may be considered to have more than one part because of the effect of a particular provision of the GST Act. For example, supplies by way of lease of goods or supplies of rights may be treated as having two parts where the goods or rights are used or consumed in Australia (taxable part) and outside Australia (GST-free part).<sup>28</sup>

---

<sup>26</sup> *Customs and Excise Commissioners v. Wellington Private Hospital Ltd* [1997] BVC 251 at 266.

<sup>27</sup> *Customs and Excise Commissioners v. Wellington Private Hospital Ltd* [1997] BVC 251 at 266.

<sup>28</sup> Section 38-187 provides that a supply of goods by way of lease is GST-free if the goods are used outside Australia. Where the goods are used partly in Australia and partly outside Australia, section 9-5 applies to ensure that the supply is taxable, but only to the extent that the goods are used in Australia. Similarly a supply, other

54. Any of the separately identifiable parts that comprise a mixed supply may themselves be composite, being comprised of a dominant part and an integral, ancillary or incidental part.<sup>29</sup> Example 8 in paragraph 76 is a mixed supply with composite parts.

54A. Further, separately identifiable parts of a supply may not be individually recognised because of the effect of a specific provision of the GST Act. For example, a supply to an eligible disabled person of a car part and labour services in fitting that part may be considered to have separately identifiable parts due to their relative significance in the supply. However, in subsections 38-505(4) and 38-510(4), the expression a 'supply of car parts' includes the labour services in fitting the car parts to the car of an eligible disabled person. There is a single GST-free 'supply of car parts'.

54B. The inclusion of labour services gives effect to the legislative purpose, as identified by reference to Subdivision 38-P and section 38-45, that a functioning car for suitable transportation is to be supplied to an eligible disabled person GST-free.

54C. A supply is GST-free under subsections 38-505(4) and 38-510(4) only if the supply is a 'supply of car parts'. Car parts supplied as an integral, ancillary or incidental component of a car service are not a supply of car parts under either of those subsections. For example, spark plugs supplied in the course of a routine service of a car are not a supply of car parts. Those car parts are only an incidental part of a supply that is properly regarded as a supply of services, not a supply of car parts.

### **Integral, ancillary or incidental parts**

55. Some supplies include parts that do not need to be separately recognised for GST purposes. We refer to these parts of a supply as being integral, ancillary or incidental. In a composite supply, the dominant part of the supply has subordinate parts that complement the dominant part. If such a supply is analysed in a commonsense way, it can be seen that the supply is essentially the provision of one thing. It need not be broken down, unbundled or dissected any further. For this reason, a composite supply may appear, at first, to have more than one part, but is treated as if it is the supply of one thing.

---

than a supply of goods or real property, for consumption outside Australia will have more than one part where section 38-190 applies to some extent.

<sup>29</sup> Paragraph 18 states that a composite supply can be a part of a mixed supply.

56. In *Customs and Excise Commissioners v. Madgett and Anor (t/a Howden Court Hotel)*, the European Court of Justice described the term ‘ancillary’ in terms of scale and connection:

‘... a service is ancillary if, first, it contributes to the proper performance of the principal service and second, it takes up a marginal proportion of the package price compared to the principal service. It does not constitute an object for customers or a service sought for its own sake, but a means of better enjoying the principal service.’<sup>30</sup>

57. In *Customs and Excise Commissioners v. British Telecommunications plc*, Lord Slynn of Hadley considered whether delivery was ancillary or incidental to a supply of cars or whether it was separately identifiable. In concluding that, as a matter of commercial reality, there was one contract for a delivered car, Lord Slynn found it necessary to consider all of the circumstances of the supply and said:

‘... the fact that separate charges are identified in a contract or on an invoice does not on a consideration of all the circumstances necessarily prevent all the supplies from constituting one composite transaction nor does it prevent one supply from being ancillary to another supply which for VAT purposes is the dominant supply ... the essential features of a transaction may show that one supply is ancillary to another and that it is the latter that for VAT purposes is to be treated as the supply.’<sup>31</sup>

58. You will need to consider all of the facts to determine whether the supply that you make has any parts that are integral, ancillary or incidental.

59. No single factor (by itself) will provide the sole test you use to determine whether a part of a supply is integral, ancillary or incidental to the dominant part of the supply.<sup>32</sup> Having regard to all the circumstances, indicators that a part may be integral, ancillary or incidental include where:

- you would reasonably conclude that it is a means of better enjoying the dominant thing supplied, rather than constituting for customers an aim in itself; or

---

<sup>30</sup> *Customs and Excise Commissioners v. Madgett & Anor (t/a Howden Court Hotel)* [1998] BVC 458 at 464.

<sup>31</sup> *Customs and Excise Commissioners v. British Telecommunications plc* [1999] BVC 306 at 312.

<sup>32</sup> See Lord Hope of Craighead in *Customs and Excise Commissioners v. British Telecommunications plc* [1999] BVC 306 at 314.

- it represents a marginal proportion of the total value of the package compared to the dominant part; or
- it is necessary or contributes to the supply as a whole, but cannot be identified as the dominant part of the supply; or
- it contributes to the proper performance of the contract to supply the dominant part.

That is, we consider that a part of a supply will be integral, ancillary or incidental where it is insignificant in value or function, or merely contributes to or complements the use or enjoyment of the dominant part of the supply. It is a question of fact and degree whether a supply is mixed or composite.

60. As a means of minimising compliance costs, you may treat something (or things taken together) as being integral, ancillary or incidental if the consideration that would be apportioned to it (if it were part of a mixed supply) does not exceed **the lesser of:**

- \$3.00; or
- 20% of the consideration of the total supply.

61. You may use this approach to treat a supply as a composite supply, although it might otherwise be considered as a mixed supply. However, if the consideration for a part exceeds the lesser of \$3.00 or 20% of the consideration for the total supply, it does not necessarily mean that the part is not integral, ancillary or incidental.

#### *Example 1 - cereal with stickers*

62. *Smartwheat supplies a packet of cereal that contains a sheet of 4 stickers, for \$4.20. Of this consideration, 20 cents is for the set of stickers and \$4.00 is for the cereal.<sup>33</sup> Because the consideration for the stickers is less than \$3.00 and is also less than 20% of the total consideration, Smartwheat may treat the stickers as being incidental. The supply is treated as being a supply of GST-free cereal.<sup>34</sup>*

---

<sup>33</sup> Paragraphs 92 to 111 explain the methods you may use to reasonably apportion the consideration for the parts of a mixed supply.

<sup>34</sup> The breakfast cereal in this example is GST-free under section 38-2. It does not fit any of the categories of food that is not GST-free under section 38-3.

63. However, in some cases, no matter how insignificant a part may be, that part is recognised as being a part in its own right where a provision of the GST Act specifically requires you to recognise it, regardless of its scale and connection with the supply. For example, certain education excursions or field trips are GST-free under section 38-90. However, paragraph 38-90(2)(b) specifically provides that the supply of food as part of the excursion or field trip is not GST-free under this provision.<sup>35</sup> Therefore, a supply of food cannot be regarded as an incidental part of the supply of the excursion or field trip.

### **Package deals**

64. Many transactions consist of a variety of things packaged for a single consideration.<sup>36</sup> Particularly in a promotional package, the supply of one part usually depends in some way on the supply of the other parts. The parts do not have to be physically packaged together to constitute a package deal.

65. In a package deal, the total price is the consideration for all of the parts of the package. This means that, for example, in a deal in which 'free' goods, services or things are supplied on condition that other goods, services or things are purchased, the purchase price is consideration for all of the things supplied, including the 'free' goods, services or things.

66. A genuinely free gift cannot form part of a package deal as such a gift is given unconditionally for no consideration. For example, a soft drink manufacturer who freely hands out its new drink product to the public on street corners is making genuinely free gifts. The supply of the drinks is not taxable because consideration has not been given for the drinks.

67. Whether you characterise a package deal as being mixed or composite depends on the factors discussed at paragraphs 40 to 63. The package deal may be a composite or a mixed supply, depending on all of the circumstances.

68. An example of a package deal that is a composite supply is where you supply a 250 millilitre bottle of sunscreen (GST-free) with a 10 gram bonus sachet of moisturiser (taxable). The consideration is not apportioned as the whole of the supply is GST-free.

---

<sup>35</sup> The food may, however, be GST-free under section 38-2.

<sup>36</sup> Whether you make a supply for a single consideration will depend on the facts.

69. Examples of package deals that are mixed supplies and require you to apportion the consideration include:

- a 250 millilitre carton of flavoured milk (taxable) that is supplied 'free' if a 1 litre bottle of milk (GST-free) is purchased; and
- a coffee plunger (taxable) and a 200 gram jar of premium coffee (GST-free) that are sold together at a discount price.

### *Examples of mixed supplies*

#### *Example 2 - commercial and residential premises*

70. *Roberto owns a building comprising both residential and commercial premises. He leases the building to Lawrence who operates a small recruitment agency from the commercial premises and lives in the residential part. The supply of the residential part is input taxed.<sup>37</sup> The supply of the commercial part is taxable. Roberto is making a mixed supply that is partly taxable and partly input taxed.*

#### *Example 3 - education courses*

71. *A natural therapies college allows students to select four individual units from both GST-free and taxable courses. Students with good grades are permitted to undertake a fifth unit for no extra charge. Barbara takes advantage of this offer and selects both taxable and GST-free units. Barbara's packaged course is a mixed supply. The part of the consideration that is for the taxable parts needs to be worked out, with the fees charged to be apportioned between the five units.*

---

<sup>37</sup> Section 40-35. Paragraph 5.164 of the Explanatory Memorandum to the GST Act refers to a similar example. See also Goods and Services Tax Ruling GSTR 2000/20 which is about commercial residential premises.

*Example 4 - student board at a university college*

72. Rory is a student who lodges in a university's residential college. The college provides full board by way of a furnished room and meals. The college charges an all-inclusive fee for the board. The furnishing merely forms part of the amenity of the room and is integral to its supply. However, neither the room nor meals are integral, ancillary or incidental to each other. This is a mixed supply of input taxed residential premises and meals that are taxable.<sup>38</sup> The college needs to work out its liability for the taxable part of the supply by apportioning the fee between the room and the meals.

*Example 5 - promotional pack*

73. Terrence supplies a promotional pack that consists of 'Toff's Tea' and a china cup and saucer. The tea is GST-free, and the cup and saucer are taxable. Each part of the supply has significant value. This is a mixed supply because the tea, and the cup and saucer are separately identifiable.

*Example 6 - health cover and gym membership*

74. A private health fund offers six months gym membership with every purchase of its premium cover package. Both the health cover and the gym membership are, in this case, each of significant value when viewed as a part of the total package, such that it can not be said that the essential character of the supply is of one part and not the other part of the supply. This is a mixed supply.

*Example 7 - hamper*

75. Harry sells assorted hampers. The 'Deluxe Picnic Hamper' includes food and beverage items (bread rolls, cheese, fruit, chocolate and fruit juice), and a silver handled knife which are packaged with a wooden bread board.<sup>39</sup> The supply of the chocolate, knife and bread board is taxable. The other items are GST-free. Each of the parts of the supply are significant. The sale of the 'Deluxe Picnic Hamper' is a mixed supply and Harry needs to apportion the consideration for the hamper.

---

<sup>38</sup> Under section 38-250, a supply of the accommodation and/or meals may be GST-free if provided by a charitable institution, a gift deductible entity or a government school.

<sup>39</sup> The hamper in this example is not a combination of foods under paragraph 38-3(1)(c).

*Example 8 - granting a right for use in and outside Australia*

76. An Australian research company grants an Australian resident the right to manufacture and sell a new product that the Australian research company has designed. The agreement is made in Australia. The right is for use in Australia and Pacific rim countries. The right will enable the resident to generate significant sales in Australia and other countries. As part of the agreement, the Australian research company will also provide insignificant technical support for the manufacturing process. The technical support is integral, ancillary or incidental to the grant of the right and is not regarded as a separate part. The supply is a mixed supply because it is comprised of a taxable part (the right to the extent it is for use in Australia) and a GST-free part (the right to the extent it is for use outside Australia).<sup>40</sup>

**Examples of composite supplies***Example 9 - delivery of GST-free goods*

77. A customer of 'Net-it-out' places an order for GST-free food through the internet. Net-it-out supplies the goods to the customer's doorstep for the price listed on its internet site. In this case, Net-it-out is making a supply of delivered GST-free goods, and has no liability to account for GST on the delivery of them. In this case, delivery is an integral, ancillary or incidental part of a supply as the supply is of delivered goods.<sup>41</sup>

---

<sup>40</sup> Item 4 of subsection 38-190(1) provides that in this case the supply of rights for use outside Australia is GST-free. Section 9-5 ensures that the supply is not taxable, to the extent that it is GST-free.

<sup>41</sup> See where the Court came to a similar conclusion in *Customs and Excise Commissioners v. British Telecommunications plc* [1999] BVC 306. In other cases the facts may indicate that a delivery charge is a separately identifiable part of a supply.

*Example 10 - picnic box*

78. *The Restless Traveller Hotel supplies guests with a picnic box that consists of bread rolls, tomatoes, a packet of cheese slices and bananas.<sup>42</sup> All of these items are GST-free and are packed in a disposable cardboard box. Also included in the picnic box are some paper serviettes and a plastic knife, that are ordinarily taxable, but in this case they are insignificant in terms of scale and connection with the food. The serviettes and knife merely contribute to the better enjoyment of the dominant parts of the supply (the food). They are integral, ancillary or incidental to the supply. The consideration for the picnic box does not need to be apportioned.<sup>43</sup>*

*Example 11 - GST-free services and the use of goods*

79. *The Heart Hospital provides GST-free hospital treatment. During hospital stays, patients are provided with the use of newspapers and television sets. No extra charges are made for the provision of these goods. They are merely incidental and ancillary to the composite supply of hospital treatment.*

*Example 12 - GST-free goods with ancillary item*

80. *A hearing aid is supplied with a small brush that is used as an accessory to clean the hearing aid so that it performs properly. Compared to the value of the hearing aid, the brush represents a small proportion of the value of the total package. In this case, from a commonsense and objective approach, a customer who purchases the package is acquiring a hearing aid. The supply of the brush is not regarded as a part, but is merely ancillary to the supply of the hearing aid. This is a composite supply.*

*Example 13 - fitted car parts*

81. *Justine sells tyres for a price that includes fitting and balancing. The fitting and balancing of the tyres are necessary procedures in providing the tyres, and are not supplies in their own right. The fitting and balancing represents a small proportion of the value of the transaction for the supply of tyres and is integral, ancillary or incidental to the supply of the tyres. The essential character of the transaction between Justine and Madge is the taxable supply of tyres.<sup>44</sup> In similar circumstances, the fitting of a windscreen, battery or muffler would also be integral, ancillary or incidental to the supply of those parts.*

---

<sup>42</sup> The picnic box in this example is not a supply of food for consumption on the premises under paragraphs 38-3(1)(a).

<sup>43</sup> This is in contrast to Example 7 where the knife and bread board are regarded as significant even though they contribute to the better enjoyment of the food.

<sup>44</sup> In contrast, the balancing of previously fitted tyres is a supply in its own right.

**Apportionment**

82. The GST Act includes a number of specific provisions which state that certain supplies are not a taxable supply. For example, subsection 66-45(1) provides that, in some circumstances, a supply of goods that were part of an acquisition of second-hand goods divided for re-supply, is not a taxable supply. This means that these supplies are not taxable supplies, regardless of whether they meet the requirements of paragraphs 9-5(a) to (d). Similarly, any other supply that does not meet the requirements of paragraphs 9-5(a) to (d) is not a taxable supply. Also, to the extent that a supply is GST-free or input taxed, then it is not a taxable supply.<sup>45</sup> In other cases, it may be argued that the statutory context allows a particular provision to be read as requiring apportionment.<sup>46</sup>

83. Where non-taxable supplies are made separately, no further issue arises. However, where they are parts of a mixed supply, then the question arises whether the GST Act requires you to apportion the consideration for the supply in the absence of a specific statutory provision.

*The argument for a general rule of apportionment*

84. The establishment of a sufficient nexus between a supply and the monetary (and non-monetary) payment received for that supply is central and essential to the proper operation of the GST Act. Establishment of this nexus indicates that there is consideration for the supply.

85. Apportionment also enables the proper operation of the GST Act, that is, to tax only that which is taxable. This would be prevented if the consideration for a supply that includes a non-taxable part could not be apportioned in the same manner as if the supplies had been made separately.

86. This point is demonstrated by a simple example. A registered sole trader supplies two cars for a single price. One car (a 'business' car) has been used exclusively in the sole trader's enterprise and the other (a 'private' car) exclusively for private purposes. If each car is supplied separately, then GST is correctly payable only on the supply of the business car. The supply of the private car attracts no GST. It would be anomalous if either GST was payable on the whole amount (including the supply of the private car), or not payable at all, simply because the two cars are sold together for the one price.

---

<sup>45</sup> See the excluding words of section 9-5.

<sup>46</sup> For a discussion of examples of such provisions, see Goods and Services Tax Ruling GSTR 2000/31, which is about supplies connected with Australia.

87. Furthermore, it would not be logical or equitable to deny an input tax credit to a registered recipient of a mixed supply that includes a non-taxable part, merely for the reason that no part of the payment for the supply can be apportioned to the taxable part.<sup>47</sup>

88. The requirement to apportion generally should not be seen as unusual. The Australian income tax cases that have dealt with apportionment issues accept the principle that a single payment may be apportioned where the facts permit.<sup>48</sup> Once a sufficient nexus is found, apportionment can be established. In particular, the High Court in *McLaurin v. Federal Commissioner of Taxation (McLaurin)*, stated that:

‘It is true that in a proper case a single payment or receipt of a mixed nature may be apportioned amongst the several heads to which it relates and an income or non-income nature attributed to portions of it accordingly ... it may be appropriate to follow such a course where the payment or receipt is in settlement of distinct claims of which some at least are liquidated ... or are otherwise ascertainable by calculation ...’<sup>49</sup>

89. Also, paragraph 9-5(a) sets out a threshold requirement that you make a supply for consideration. If there is no consideration for the supply, then it will not be taxable. Consideration is widely defined and includes any payment, act or forbearance made in connection with, or in response to, or for the inducement of a supply of anything.<sup>50</sup> Where you identify a payment for a mixed supply, then it is reasonable to say that part of that payment is made in connection with the taxable part.

#### *The alternative view*

90. It has been argued that there is no inherent requirement to apportion for reasons which, together with our responses, appear below:

- (a) the GST Act has no provision to deal with the general apportionment of consideration, as found in other jurisdictions (but see paragraph 91);<sup>51</sup>

---

<sup>47</sup> Given that the conditions of Division 11 are met.

<sup>48</sup> *Allsop v. Federal Commissioner of Taxation* (1965) 113 CLR 341; *McLaurin v. Federal Commissioner of Taxation* (1961) 104 CLR 381; *National Mutual Life Association of Australasia v. Federal Commissioner of Taxation* (1959) 102 CLR 29; and *Commissioner of Taxation v. CSR Ltd* [2000] FCA 1513.

<sup>49</sup> *McLaurin v. Federal Commissioner of Taxation* (1961) 104 CLR 381 at 391.

<sup>50</sup> Subsection 9-15(1).

<sup>51</sup> For example, New Zealand, the United Kingdom and Canada.

- (b) the decisions in both *McLaurin* and *Allsop v. Federal Commissioner of Taxation* are authority for the view that a single payment cannot be dissected into individual payments relating to particular things (but as stated at paragraph 88, the judgments in these cases support the view that a single payment may be apportioned where the facts permit);
- (c) the GST Act contains numerous sections giving specific powers of apportionment which would not be necessary if there was a general inherent power available under the GST Act (but these do not necessarily form a code); and
- (d) the exclusion from a taxable supply to the extent that the supply is GST-free or input taxed in section 9-5, does not contain words which similarly exclude other non-taxable supplies (but things that the GST Act specifically states are not a taxable supply and things that do not meet one or more of paragraphs 9-5(a) to (d) do not need such legislative treatment).

### *Taxation Office view*

91. We are of the view that the GST Act inherently requires that parts of a mixed supply be identified and that the consideration be apportioned where a sufficient nexus between the supply and its consideration is established. This approach gives practical effect to the intention of the GST Act and is consistent with a commonsense and equitable outcome.

### **Reasonable methods of apportionment**

92. Where there is no legislative provision specifying a basis for apportionment you may use any reasonable method to apportion the consideration to the parts of a mixed supply. However, the apportionment must be supportable by the facts in the particular circumstances.

93. What is a reasonable method of apportioning the consideration for a mixed supply depends on the circumstances of each case.<sup>52</sup> In some cases, there will be only one reasonable method you may use.

---

<sup>52</sup> The principles of reasonableness used in Goods and Services Tax Ruling GSTR 2000/15, which is about determining the extent of creditable purpose for claiming input tax credits and for making adjustments for changes in the extent of creditable purpose, also apply in this Ruling.

94. Depending on your circumstances, you may use a direct or indirect method when apportioning the consideration for a mixed supply.

95. The method you choose should be based on a consideration of all the circumstances and not because it gives you a particular result. You may need to use different methods, or a combination of methods, for different supplies to ensure the appropriate amount of GST is payable. You need to keep records that explain all transactions and other acts you engage in that are relevant to supplies you make, including supplies that are GST-free and input taxed.<sup>53</sup>

96. Where consideration is apportioned in a manner that cannot be justified in terms of reasonableness, the general anti-avoidance provisions of the GST Act may have application.<sup>54</sup>

### **Direct methods**

97. Direct methods use relevant variables that measure the connection between what is supplied (the taxable and non-taxable parts) and the consideration for the supply. A direct method usually gives you the most accurate measure of the consideration for the taxable part of the supply you make. Such methods may include:

- the comparative price of each part if it were supplied on its own, relative to the whole payment received (see paragraphs 98 to 103);
- the relative amount of time required to perform the supply (see paragraphs 104 to 105); and
- the relative floor area in a supply of property (see paragraphs 106 to 108).

#### *Price of each part relative to the whole*

98. Where it is possible to determine the price for which each part would have been supplied if it was supplied separately (for example, the general retail market price for which the goods are sold), then an apportionment on this basis may be reasonable. If you use this method, the GST you pay is the same as if you supplied the taxable parts separately in the same market.

---

<sup>53</sup> Section 70 of the *Taxation Administration Act 1953* provides rules for keeping records of indirect tax transactions.

<sup>54</sup> See Division 165.

99. Where you cannot establish an appropriate market price for which particular goods are sold, then it may be reasonable for you to use a relevant market price for a similar supply (or an industry standard), to determine the appropriate price of the particular goods.

100. In many cases, you may make a mixed supply for a package price. The package price for the mixed supply may be discounted. It may be reasonable for you to apply the discount to the usual market selling price of each part, unless special circumstances exist. On this basis, you may discount the price of each item proportionately according to the consideration for the mixed supply.

### ***Examples of apportionment using relative price***

#### *Example 14 - commercial and residential premises*

101. *Hilary is registered for GST. She sells a property that consists of commercial premises and residential premises. The property is on a single title and is currently untenanted, although the commercial part was recently rented for \$1,000 per week and the residential part for \$500 per week.<sup>55</sup> Hilary may reasonably apportion two thirds of the consideration for the sale to the commercial part and one third to the residential part.*

#### *Example 15 - education courses*

102. *Pierre signs up for a college course at a discounted package price. There are four units in Pierre's course - two that are GST-free and two that are taxable. The college usually charges \$500 for each of the GST-free units and \$825 for each of the taxable units. Pierre would normally pay \$2,650 for the course, but after a discount of 20%, he pays \$2,120.*

103. *To reasonably apportion the consideration for the course, the college discounts each of the units by 20%. The consideration for each of the GST-free units is \$400 (that is, \$500 less 20%), and for each of the taxable units, the consideration is \$660 (that is, \$825 less 20%).*

---

<sup>55</sup> The sale of commercial premises is taxable. The sale of residential premises is input taxed under section 40-65.

*Relative time to perform the supply*

104. Where you supply services and charge them out on a time basis (for example, at an hourly rate), it may be reasonable to apportion the consideration for a mixed supply based on the time taken to perform the relevant taxable and non-taxable parts of the supply. This method may be suitable where you make mixed supplies of professional or trade services.

*Example 16 - GST-free and taxable services*

105. *Under direction from a doctor, Gilda provides community care to a privately funded client in the client's own home. She charges a flat hourly rate for her services that include helping to feed and dress her client. These services are GST-free under section 38-30. Gilda also tidies her client's house and garden. These latter services are taxable. Gilda apportions the consideration for her services on the number of hours it takes for her to perform the services. This is a reasonable method of apportionment.*

*Relative floor area in a supply of property*

106. In some cases, it is reasonable for you to allocate the consideration for a mixed supply by reference to the relative floor area of the property being supplied. To make an allocation on this basis, you also need to consider the relative price of different types of floor space (for example, floor space in residential, retail and industrial property are often priced differently). That is, you may simply work out the proportionate floor area if the value per square metre does not vary. However, if the value per square metre is variable, then you can reasonably apportion on a basis of each area and its relative value. You may also need to take into account external features, such as the value of recreational areas.

*Example 17 - commercial and residential premises*

107. *Warren rents out a property to Josef for \$2,000 per month. The property is comprised of residential and commercial premises. The floor area of the residential part is 160 square metres and the commercial part is 80 square metres. In the locality, the rental of commercial space is worth twice as much as residential space.*

108. *It would be reasonable for Warren to base the taxable proportion of the supply on the floor area of the commercial part as a proportion of the combined floor area of the commercial and residential parts. However, he also needs to take into account the difference in the relative value of the commercial and residential floor space. Warren may reasonably apportion the consideration equally between the commercial and the residential parts.*

### **Indirect methods**

109. You may decide that it is appropriate that you use an indirect method to apportion the consideration for a mixed supply you make. For example, you may use a reasonable method that includes the addition of an appropriate mark-up to reflect your profit margin relative to the market you supply.

110. Another example is where an arm's length wholesaler or manufacturer makes a mixed supply to you of things that have been packaged in the form in which you will market them. In this case, you may adopt the apportionment ratio worked out by your supplier. On the other hand, if your supplier characterises a supply to you as a composite supply, you will not necessarily be able to adopt the same characterisation. This is because your supplier may have used the approach provided at paragraph 21 which may not be applicable to your particular circumstances because of your profit mark-up.

#### *Example 18 - indirect method*

111. *Byron manufactures cosmetics including perfume, shampoo and SPF 30+ sunscreen. Perfume and shampoo are taxable, and the sunscreen is GST-free. Byron supplies one bottle of each item in a clear plastic package to wholesalers. He chooses to use an indirect method based on the cost and usual profit margin of each item to apportion the consideration for the supply. This method is reasonable in the circumstances.*

### **Methods of apportionment that are not reasonable**

112. Some methods may not result in a reasonable apportionment of the consideration for a mixed supply. For example, in some cases, it may not be reasonable to apportion the consideration solely on the basis of the cost of the supply to you. This would be the case if your mark-up varies from part to part. Variations in mark-ups prevent this method from being a reasonable apportionment of the consideration for the supply.

113. Also, in some circumstances it may not be reasonable to apportion consideration using 'historical cost' and 'residual value' methods. These amounts often are used for accounting purposes and may not reflect an appropriate apportionment of the consideration for a supply.<sup>56</sup>

### **Calculating the GST payable on the taxable part of a mixed supply**

114. GST is calculated as 10% of the value of the taxable supply.<sup>57</sup> Section 9-75 links the value of the taxable supply to its price so that the value of a supply is 10/11 of its price. This also means that the GST payable on a taxable supply is equivalent to 1/11 of the price (or consideration) of the supply.

115. However, because a mixed supply includes non-taxable parts, you need to work out the value or price of the taxable part, or the proportion of the value of the actual supply that the taxable part represents, so that you can determine the correct amount of GST is payable.

116. When you have apportioned the consideration for a mixed supply, you can calculate the GST payable as either:

- 10% of the value of the taxable part; or
- 1/11 of the price (or consideration) for the taxable part.

### *Valuing the taxable part of a mixed supply where the non-taxable parts are GST-free or input taxed*

117. Section 9-80 provides the method for working out the value of the taxable part of a mixed supply that consists only of taxable and GST-free or input taxed parts. The section refers to such a supply as the actual supply. It also provides a formula to work out the value of the actual supply.<sup>58</sup>

118. However, in analysing the actual supply that is a mixed supply, you apportion the consideration for the supply and work out the consideration for the taxable part. The value of that part is simply calculated as 10/11 of its price (or consideration).

---

<sup>56</sup> In Goods and Services Tax Ruling GSTR 2001/6, Goods and services tax: non-monetary consideration, we also state that 'historical cost' or 'residual value' may not be acceptable methods for determining the market value of consideration.

<sup>57</sup> Section 9-70.

<sup>58</sup> Subsection 9-80(2).

*Valuing the taxable part of a mixed supply where the non-taxable parts are not GST-free or input taxed*

119. Section 9-75 applies to work out the value of the taxable part of a mixed supply consisting of taxable and non-taxable parts that are either dealt with in specific provisions of the GST Act or do not meet the requirements of paragraphs 9-5(a) to (d). The consideration that is allocated to the taxable part is the price of the taxable part referred to in section 9-75. The value of that part is simply calculated as 10/11 of its price (or consideration).

### **Preparing a tax invoice that includes a mixed supply**

120. Section 29-70 and regulation 29-70.01 of the *A New Tax System (Goods and Services Tax) Regulations 1999* specify the information to be contained in a tax invoice. The application of these provisions is explained in Goods and Services Tax Ruling GSTR 2000/17.

121. The GST payable on a mixed supply you make will be less than 1/11 of the price of the supply. Where you make a mixed supply, the taxable part of the supply is a taxable supply and the requirements for issuing a tax invoice are as stated in subregulation 29-70.01(6).<sup>59</sup> To show the correct amount of GST, the tax invoice for a mixed supply must:

- clearly identify each taxable supply;
- show the total amount of GST payable; and
- show the total amount payable.

122. If you use a simplified accounting method to account for GST on your Business Activity Statement, you may still have to issue a tax invoice within 28 days of a request by the recipient of the supply.<sup>60</sup>

---

<sup>59</sup> Paragraphs 19 and 20 of Goods and Services Tax Ruling GSTR 2000/17 discuss the tax invoice requirements for a mixed supply in which the non-taxable part is not GST-free or input taxed. These requirements match those in subregulation 29-70.01(6).

<sup>60</sup> The Commissioner has published a booklet titled 'Simplified GST Accounting Methods for Food Retailers'. This information is available from the ATO website at [www.ato.gov.au](http://www.ato.gov.au).

## Detailed contents list

---

123. Below is the detailed contents list for this Ruling:

|  | <b>Paragraph</b> |
|--|------------------|
| <b>What this Ruling is about</b>                                     | <b>1</b>         |
| <b>Date of effect</b>  | <b>8</b>         |
| <b>Context</b>   | <b>9</b>         |
| <b>Ruling</b>  | <b>15</b>        |
| Mixed Supply   | 16               |
| Composite supply   | 17               |
| Differentiating between mixed and composite supplies                 | 19               |
| Apportioning a mixed supply  | 25               |
| Calculating the GST payable on the taxable part of a mixed supply    | 28               |
| <b>Explanation</b>   | <b>31</b>        |
| Differentiating between mixed and composite supplies                 | 40               |
| Separately identifiable parts  | 45               |
| Integral, ancillary or incidental parts                              | 55               |
| <i>Example 1 - cereal with stickers</i>                              | 62               |
| Package deals  | 64               |
| <i>Examples of mixed supplies</i>                                    | 70               |
| <i>Example 2 - commercial and residential premises</i>               | 70               |
| <i>Example 3 - education courses</i>                                 | 71               |
| <i>Example 4 - student board at a university college</i>             | 72               |
| <i>Example 5 - promotional pack</i>                                  | 73               |
| <i>Example 6 - health cover and gym membership</i>                   | 74               |
| <i>Example 7 - hamper</i>  | 75               |
| <i>Example 8 - granting a right for use in and outside Australia</i> | 76               |
| <i>Examples of composite supplies</i>                                | 77               |
| <i>Example 9 - delivery of GST-free goods</i>                        | 77               |
| <i>Example 10 - picnic box</i>                                       | 78               |
| <i>Example 11 - GST-free services and the use of goods</i>           | 79               |
| <i>Example 12 - GST-free goods with ancillary item</i>               | 80               |

|   |                |
|---|----------------|
| <i>Example 13 - fitted car parts</i>  | 81             |
| Apportionment   | 82             |
| <i>The argument for a general rule of apportionment</i>   | 84             |
| <i>The alternative view</i>   | 90             |
| <i>Taxation Office view</i>   | 91             |
| Reasonable methods of apportionment   | 92             |
| Direct methods  | 97             |
| <i>Price of each part relative to the whole</i>   | 98             |
| <i>Examples of apportionment using relative price</i>   | 101            |
| <i>Example 14 - commercial and residential premises</i>   | 101            |
| <i>Example 15 - education courses</i>   | 102            |
| <i>Relative time to perform the supply</i>  | 104            |
| <i>Example 16 - GST-free and taxable services</i>   | 105            |
| <i>Relative floor area in a supply of property</i>  | 106            |
| <i>Example 17 - commercial and residential premises</i>   | 107            |
| Indirect methods  | 109            |
| <i>Example 18 - indirect method</i>   | 111            |
| Methods of apportionment that are not reasonable  | 112            |
| Calculating the GST payable on the taxable part of a mixed supply   | 114            |
| <i>Valuing the taxable part of a mixed supply where the non-taxable parts are GST-free or input taxed</i>     | 117            |
| <i>Valuing the taxable part of a mixed supply where the non-taxable parts are not GST-free or input taxed</i> | 119            |
| Preparing a tax invoice that includes a mixed supply  | 120            |
| <b>Detailed contents list</b>   | <b>123</b>     |
| <b>Appendix A</b>   | <b>Page 30</b> |

*Related Rulings/Determinations:*

GSTR 1999/1; GSTD 2000/6;  
GSTR 2000/15; GSTR 2000/17;  
GSTR 2000/20; GSTR 2000/31;  
GSTR 2001/6

*Subject References:*

- ancillary
- apportionment
- composite supply
- GST
- GST-free supply
- incidental
- integral
- input taxed supply
- mixed supply
- non-taxable supply
- package deal
- partly taxable supply
- tax invoice
- taxable supply
- value

*Legislative References:*

- ANTS(GST)A99 7-1(1)
- ANTS(GST)A99 9-5
- ANTS(GST)A99 9-5(a)
- ANTS(GST)A99 9-5(b)
- ANTS(GST)A99 9-5(c)
- ANTS(GST)A99 9-5(d)
- ANTS(GST)A99 9-10(2)(h)
- ANTS(GST)A99 9-15(1)
- ANTS(GST)A99 9-30(1)
- ANTS(GST)A99 9-30(2)
- ANTS(GST)A99 9-40
- ANTS(GST)A99 Subdiv 9-C
- ANTS(GST)A99 9-70
- ANTS(GST)A99 9-75
- ANTS(GST)A99 9-75(1)
- ANTS(GST)A99 9-80
- ANTS(GST)A99 9-80(2)
- ANTS(GST)A99 Div 11
- ANTS(GST)A99 29-70
- ANTS(GST)A99 Div 38
- ANTS(GST)A99 38-2
- ANTS(GST)A99 38-3
- ANTS(GST)A99 38-3(1)(a)
- ANTS(GST)A99 38-3(1)(c)
- ANTS(GST)A99 38-30
- ANTS(GST)A99 38-45
- ANTS(GST)A99 38-90
- ANTS(GST)A99 38-90(2)(b)
- ANTS(GST)A99 38-187
- ANTS(GST)A99 38-190
- ANTS(GST)A99 38-190(1)
- ANTS(GST)A99 38-250

- ANTS(GST)A99 Subdiv 38-P
- ANTS(GST)A99 38-505(4)
- ANTS(GST)A99 38-510(4)
- ANTS(GST)A99 Div 40
- ANTS(GST)A99 40-35
- ANTS(GST)A99 40-65
- ANTS(GST)A99 48-40(2)
- ANTS(GST)A99 49-30
- ANTS(GST)A99 49-30(1)
- ANTS(GST)A99 51-30(2)
- ANTS(GST)A99 66-45
- ANTS(GST)A99 66-45(1)
- ANTS(GST)A99 72-5
- ANTS(GST)A99 78-25
- ANTS(GST)A99 78-25(1)
- ANTS(GST)A99 78-50
- ANTS(GST)A99 78-60
- ANTS(GST)A99 78-60(1)
- ANTS(GST)A99 78-65
- ANTS(GST)A99 78-70
- ANTS(GST)A99 81-10
- ANTS(GST)A99 84-5
- ANTS(GST)A99 90-5
- ANTS(GST)A99 90-5(1)
- ANTS(GST)A99 100-5
- ANTS(GST)A99 100-5(1)
- ANTS(GST)A99 105-5
- ANTS(GST)A99 105-5(3)
- ANTS(GST)A99 113-1
- ANTS(GST)A99 113-5(1)
- ANTS(GST)A99 Div 165
- ANTS(GST)A99 195-1
- ANTS(GST)R99 29-70.01
- ANTS(GST)R99 29-70.01(6)
- ANTS(GST)R99 40-5.
- TAA 1953 70
- TAA 1953 70(1)(d)
- TAA 1953 Sch 1 105-60

*Case References:*

- Allsop v. Federal Commissioner of Taxation (1965) 113 CLR 341
- Bophuthatswana National Commercial Corporation Ltd v. Customs and Excise Commissioners [1993] BVC 194
- British Airways plc v. Customs and Excise Commissioners (1990) 5 BVC 97
- Card Protection Plan Ltd v. Customs and Excise Commissioners [1999] BVC 155
- Card Protection Plan v. Customs and Excise Commissioners [2001] UKHL 4; [2001] BVC 158

- Commissioner of Taxation v. CSR Ltd [2000] FCA 1513
  - Customs and Excise Commissioners v. British Telecommunications plc [1999] BVC 306
  - Customs and Excise Commissioners v. Madgett (t/a Howden Court Hotel) (Joined Cases C-308/96 and C-94/97) [1998] BVC 458
  - Customs & Excise Commissioners v. Wellington Private Hospital Ltd [1997] BVC 251
  - E.C. Commission v. United Kingdom (Case No. 353/85) (1988) 3 BVC 265
  - McLaurin v. Federal Commissioner of Taxation (1961) 104 CLR 381
  - National Mutual Life Association of Australasia v. Federal Commissioner of Taxation (1959) 102 CLR 29
  - Sea Containers Ltd v. Customs & Excise Commissioners [2000] BVC 60
  - United Biscuits (UK) Ltd (t/a Simmers) v. Customs and Excise Commissioners [1992] BVC 54
- 

ATO references:

NO T2000/19538

BO

ATOlaw Goods and Services Tax ~~ General rules and concepts ~~ mixed

topic: supplies

ISSN: 1443-5160

## **Appendix A**

In addition to section 9-5, which provides that a supply is not a taxable supply to the extent that it is GST-free or input taxed, the GST Act specifies that the following things are not a taxable supply, or are not treated as a taxable supply:

### *Supplies to members of the same GST group*

[Subsection 48-40(2)] However:

- (a) a supply that an entity makes to another \*member of the same \*GST group is treated as if it were not a \*taxable supply, unless:
  - (i) it is a taxable supply because of Division 84 (which is about offshore supplies other than goods or real property); or
  - (ii) the entity is a participant in a \*GST joint venture and acquired the thing supplied from the joint venture operator for the joint venture; and
- (b) this section only applies to GST payable on a \*taxable importation made, by a member of the GST group other than the \*representative member, if the GST on the importation is payable at a time when GST on \*taxable supplies is normally payable by the representative member.

### *Supplies between members of the same religious group*

[Subsection 49-30(1)] A supply that a \*member of a \*GST religious group makes to another member of the same GST religious group is treated as if it were not a \*taxable supply.

### *Supplies from a joint venture operator to another joint venture operator*

[Subsection 51-30(2)] However, a supply that the \*joint venture operator of a \*GST joint venture makes is treated as if it were not a \*taxable supply if:

- (a) it is made to another entity that is a \*participant in the joint venture; and
- (b) the participant acquired the thing supplied for consumption, use or supply in the course of activities for which the joint venture was entered into.

*Supply of goods that were part of an acquisition of second-hand goods that are divided for re-supply*

[Subsection 66-45(1)] A supply you make is not a \*taxable supply if:

- (a) it is a supply of goods that were part of an acquisition you made that was an acquisition of \*second-hand goods to which this Subdivision applied; and
- (b) your \*total Subdivision 66-B credit amount is more than your \*total Subdivision 66-B GST amount; and
- (c) what would be the amount of GST payable on the supply, if the supply were a taxable supply, is less than or equal to the difference between:
  - (i) your \*total Subdivision 66-B credit amount; and
  - (ii) your \*total Subdivision 66-B GST amount.

Note: This section will not apply unless the record keeping requirements of section 66-55 are met.

*Supplies by an insurer in settlement of claims*

[Subsection 78-25(1)] A supply that an insurer makes in settlement of a claim under an \*insurance policy is not a \*taxable supply.

*Supplies of goods to insurers in the course of settling claims*

[Subsection 78-60(1)] A supply of goods is not a \*taxable supply if it is *solely* a supply made under an \*insurance policy to an insurer in the course of settling a claim under the policy.

*Supply by an amalgamating company to an amalgamated company in the course of amalgamation*

[Subsection 90-5(1)] A supply made by an \*amalgamating company to an \*amalgamated company in the course of \*amalgamation is not a \*taxable supply if, immediately after the amalgamation, the amalgamated company is \*registered or \*required to be registered.

*Supplies of vouchers stating monetary value*

[Subsection 100-5(1)] A supply of a \*voucher is not a \*taxable supply if:

- (a) on redemption of the voucher, the holder of the voucher is entitled to supplies up to a monetary value stated on the voucher; and
- (b) the \*consideration for the supply of the voucher does not exceed that monetary value.

*Supplies by creditors in satisfaction of debts where the debtor supplies a written notice that the supply would not be taxable*

[You make a taxable supply if you supply the property of another entity (the **debtor**) to a third entity in or towards the satisfaction of a debt that the debtor owes to you, and the supply would have been a taxable supply if the debtor had made the supply.]

[Subsection 105-5(3)] However, the supply is not a \*taxable supply if:

- (a) the debtor has given you a written notice stating that the supply would not be a taxable supply if the debtor were to make it, and stating fully the reasons why the supply would not be a taxable supply; or
- (b) if you cannot obtain such a notice - you believe on the basis of reasonable information that the supply would not be a taxable supply if the debtor were to make it.

*Supply of work or services, under an arrangement, and a voluntary agreement to withhold is in place*

[Subsection 113-5(1)] A supply that you make is not a \*taxable supply to the extent that you make it under an arrangement (within the meaning of the *Income Tax Assessment Act 1997*) if:

- (a) the arrangement the performance of which, in whole or in part, involves the performance of work or services (whether or not by you); and
- (b) an agreement is in force that:
  - (i) complies with section 12-55 in Schedule 1 to the *Taxation Administration Act 1953* (about voluntary agreements to withhold); and
  - (ii) states that the section covers payments under the arrangement, or payments under a series of arrangements that includes the arrangement; and

# GSTR 2001/8

- (c) you, and the entity acquiring what you supply under the arrangement, are parties to that agreement; and
- (d) you have an \*ABN that is in force and is quoted in the agreement; and
- (e) the acquisition, by that entity, of what you supply under the arrangement would be a \*creditable acquisition (and not \*partly creditable) if the supply were a \*taxable supply.