


# ***PCG 2017/15 - GST and Customer Owned Banking Institutions***

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## **GST and Customer Owned Banking Institutions**

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### **Relying on this Guideline**

*This Practical Compliance Guideline sets out a practical administration approach to assist taxpayers in complying with relevant tax laws. Provided you follow this guideline in good faith, the Commissioner will administer the law in accordance with this approach.*

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| <b>Table of Contents</b>          | <b>Paragraph</b> |
|-----------------------------------|------------------|
| What this Guideline is about      | 1                |
| Date of effect                    | 2                |
| Who this Guideline applies to     | 3                |
| Background                        | 5                |
| The approach under this Guideline | 11               |
| <i>Example</i>                    | 23               |

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### **What this Guideline is about**

1. This Guideline<sup>1</sup> explains when the Commissioner will accept, as a matter of practical administration, a rate of no more than 18% as your extent of creditable purpose for certain acquisitions.<sup>2</sup>

### **Date of effect**

2. This Guideline applies to tax periods starting on and from 1 July 2017.

### **Who this Guideline applies to**

3. This Guideline applies to customer owned banking institutions.

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<sup>1</sup> All legislative references in this Guideline are to the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act) unless otherwise specified.

<sup>2</sup> This Guideline applies equally to determining the extent of creditable purpose under section 15-25 for importations made by customer owned banking institutions. Any reference in this Guideline to acquisitions applies equally to importations.

4. A customer owned banking institution is an Authorised Deposit-taking Institution (ADI) that provides banking services such as credit cards, loans, savings accounts, and term deposits, and is owned by its members. Customer owned banking institutions include mutual banks, credit unions and building societies and are operated under a mutual corporate structure in accordance with ASIC Regulatory Guide 147 *Mutuality: Financial Institutions*.<sup>3</sup> However this guideline does not apply to entities wholly or partly owned by such institutions which do not supply banking services, for example securitisation trusts.

## Background

5. Under the GST law you acquire a thing for a creditable purpose to the extent that you acquire it in carrying on your enterprise. However, you do not acquire the thing for a creditable purpose to the extent that the thing relates to making supplies that would be input taxed. You do not acquire a thing for a creditable purpose to the extent that the acquisition solely relates to making input taxed supplies.<sup>4</sup>

6. If you acquire a thing for a partly creditable purpose,<sup>5</sup> you need to work out the extent of the creditable purpose to determine your input tax credit entitlement for that acquisition.

7. We acknowledge that customer owned banking institutions may experience difficulties in meeting the requirements of the GST law in the context of apportionment of their partly creditable acquisitions. The ATO is also conscious of its administration costs associated with seeking assurance of apportionment methodologies and in particular, consideration of the customer owned banking institutions' design, maintenance and use of apportionment methodologies. The rate set out in this Guideline is reflective of the resource commitment and low level of risk to revenue.

8. The purpose and intent of this Guideline is to remove the complexity and to minimise compliance costs for customer owned banking institutions.

9. Further guidance on apportionment methods can be found in Goods and Services Tax Ruling GSTR 2006/3: *Goods and Services tax: determining the extent of creditable purpose for providers of financial supplies* (GSTR 2006/3).

10. This Guideline only applies in relation to GST and is not applicable for any other purpose or in relation to any other tax obligations and entitlements.

## The approach under this Guideline

11. This Guideline applies to you if you are a customer owned banking institution (as defined in paragraph 4 of this Guideline).

12. Under this Guideline the Commissioner will accept as a matter of practical administration a rate of no more than 18% (the rate) as the extent of your creditable purpose:

- (a) for all your partly creditable acquisitions only (subject to paragraph 13 of this Guideline), or
- (b) for all your acquisitions<sup>6</sup> where the supply to you was a taxable supply and not an acquisition where the input tax credit is otherwise denied<sup>7</sup> (subject to paragraph 14 of this Guideline).

<sup>3</sup> <http://www.asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-147-mutuality-financial-institutions/>.

<sup>4</sup> You also do not acquire a thing for a creditable purpose if the acquisition is of a private or domestic nature.

<sup>5</sup> Subsection 11-30(1).

<sup>6</sup> Includes acquisitions that would have been for a creditable purpose if subsection 11-15(2)(a) did not apply.

<sup>7</sup> Acquisitions where an input tax credit may be otherwise denied under Division 69.

13. You can only apply paragraph 12(a) of this Guideline where you are able to identify acquisitions that solely relate to taxable, GST-free or input taxed supplies. The GST on such acquisitions is either wholly recoverable or not recoverable. The rate would only apply to your remaining acquisitions that are partly creditable.

14. You can only apply paragraph 12(b) of this Guideline where you are unable to identify acquisitions that solely relate to taxable, GST-free or input taxed supplies because it is practically difficult and burdensome for you to do so (for example due to limited accounting system capability). For large, one-off acquisitions, we would expect you to firstly identify whether the acquisition solely relates to taxable, GST-free or input taxed supplies.

15. If you apply the rate under either paragraph 12(a) or (b) of this Guideline, we will not devote compliance resources to review input tax credit claims for acquisitions to which you have applied the rate for the purpose of determining the extent of creditable purpose. However, we may still conduct verification of all of your acquisitions to ensure that you applied the rate in accordance with this Guideline including paragraphs 12(a) and (b). We may also verify whether you are entitled to claim the input tax credit for other reasons, for example whether you made the acquisition, whether the input tax credit was claimed in the correct tax period and whether you hold a valid tax invoice.

16. For tax governance purposes, you should keep adequate records that show why you applied the rate to your particular types of acquisitions under either paragraph 12(a) or 12(b) of this Guideline.

17. This Guideline will only apply where you start applying the rate at the beginning of the tax period in which you decide to use the rate and as a minimum, continue to use it for the remainder of your financial year. In the subsequent financial year you would be required to use the rate for the whole of the financial year.

18. At the start of each financial year that applies to you, you will need to re-assess your eligibility under this Guideline (and in particular your eligibility as per paragraphs 12(a) or 12(b)) to ensure that you are applying the rate appropriately. This Guideline does not apply to acquisitions made in prior periods when you have not applied the rate under paragraph 12.

19. The rate cannot be used in calculating an adjustment for change in use of an acquisition that you included in a tax period when you were not using the rate. We would expect you to use the same methodology that you used to determine the original use. Further guidance on this can be found in Goods and Services Tax Ruling GSTR 2000/24: *Goods and services tax: Division 129 – making adjustments for changes in extent of creditable purpose*.

20. You do not need to notify us that you have applied the rate under this Guideline. However, you do need to keep records to show how you determined which acquisitions were solely or partly creditable, and when you started and/or stopped applying the rate under this Guideline.

21. The use of the rate under this Guideline is not mandatory and you can apply your own apportionment methodology to calculate the extent of your creditable purpose provided that it is fair and reasonable. Further guidance can be found in GSTR 2006/3.

22. We will review the rate and scope of this Guideline every two years or earlier if appropriate (for example if there are changes in the industry or the GST law) in consultation with the customer owned banking sector.

### **Example**

23. *Peppermint Credit Union (Peppermint) provides input taxed supplies of transaction and savings accounts and home loans, and taxable supplies of insurance agency services and financial planning services.*

24. *Peppermint chooses to adopt the rate as the extent of creditable purpose for all of its partly creditable acquisitions under paragraph 12(a) of this Guideline.*

25. *In the 3 months ended 30 September 2017 Peppermint has made the following acquisitions:*

| <b>Acquisitions</b>  | <b>Value (\$)</b> | <b>GST (\$)</b> | <b>Input tax credit (\$)</b>      |
|--|-------------------|-----------------|-----------------------------------|
| Valuations for home loans<br>(an acquisition that falls<br>within item 14(e) of<br>Regulation 70-5.02) | 20,000            | 2,000           | 1,500<br>(RITC at 75% of \$2,000) |
| Financial planning software<br>licence   | 3,000             | 300             | 300<br>100% of 300                |
| General information<br>technology expenses   | 72,000            | 7,200           | 1,296<br>(18% of 7,200)           |
| Rent   | 80,000            | 8,000           | 1,440<br>(18% of 8,000)           |
| Audit and accounting fees  | 10,000            | 1,000           | 180<br>(18% of 1,000)             |
| <b>TOTAL</b>   | <b>185,000</b>    | <b>18,500</b>   | <b>4,716</b>                      |

26. *The valuations for home loans are solely related to the input taxed supplies of home loans. Therefore, Peppermint is not entitled to any input tax credits although Peppermint may be entitled to a reduced input tax credit of 75% (\$1,500).*

27. *The software licence for the financial planning function is solely related to the taxable supplies of financial planning services, and therefore Peppermint is entitled to a full input tax credit of \$300.*

28. *The general information technology expenses, rent, and audit and accounting expenses do not solely relate to taxable, GST-free or input taxed supplies. These acquisitions are partly creditable acquisitions. Peppermint chose to apply the rate to determine the extent of its creditable purpose and to calculate its input tax credit entitlement. By applying a rate of 18% Peppermint claims an input tax credit of \$2,916 for all of its partly creditable acquisitions.*

29. *Therefore, for the three month period ending 30 September 2017, Peppermint claims a total input tax credit of \$4,716.*

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**Commissioner of Taxation**

8 September 2017

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## References

|                                |  |
|--------------------------------|--|
| ATOlaw topic(s)                | Goods and services tax ~~ Financial supplies ~~ Creditable purpose<br>Goods and services tax ~~ General rules and concepts ~~ Apportionment ~~ Other     |
| Legislative references         | ANTS(GST)A 1999<br>ANTS(GST)A 1999 11-15(2)(a)<br>ANTS(GST)A 1999 11-30(1)<br>ANTS(GST)A 1999 15-25<br>ANTS(GST)A 1999 Div 69<br>ANTS(GST)A 1999 Div 129 |
| Related Rulings/Determinations | GSTR 2000/24<br>GSTR 2006/3  |
| Other references               | ASIC Regulatory Guide 147 Mutuality: Financial Institutions  |
| ATO references                 | 1-BHGTOE9  |
| BSL                            | ITX  |

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