GSTR 2000/D2 - Goods and Services Tax: making adjustments for changes in extent of creditable purpose.

This document has been finalised.
There is an Erratum notice for this document.

Draft Goods and Services Tax Ruling
Goods and Services Tax: making adjustments for changes in extent of creditable purpose.

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Preamble

This document is a draft for industry and professional comment. As such, it represents the preliminary, though considered views of the Australian Taxation Office. This draft may not be relied on by taxation officers, taxpayers and practitioners as it is not a Ruling or advice in terms of section 37 of the ***Taxation Administration Act 1953****. When officially released it will be a public ruling for the purposes of section 37 and may be relied upon by any person to whom it applies.*

What this Ruling is about

1. This Ruling explains our view on how to work out an adjustment for an acquisition or importation under Division 129 of *A New Tax System (Goods and Services Tax) Act 1999* ('GST Act'). In particular, the Ruling explains:

- the circumstances when an adjustment will arise for an acquisition or importation;
- what the adjustment periods for an acquisition or importation are;
- how to work out if an adjustment has arisen; and
- how to work out the amount of an adjustment and when to attribute the adjustment.

2. Certain terms used in this Ruling are defined or explained in the Definitions section of the Ruling. These terms, when first mentioned elsewhere in the body of this Ruling, will appear in **bold** type.

3. This Ruling applies to you if:

- you are registered or required to be registered for The Goods and Services Tax ('GST');
- you make acquisitions or importations on or after 1 July 2000; and

- the actual use of the acquisition or importation for a creditable purpose differs from the planned use of it.

4. This Ruling does not explain how to account for Division 129 adjustments on your Business Activity Statement. We explain this in the instructions for the Business Activity Statement.

5. In explaining how to work out the actual use for a creditable purpose, the Ruling draws on several methodologies for determining the extent of creditable purpose. We explain these methodologies in draft Goods and Services Tax Ruling GSTR 1999/D14 (for financial supplies) and draft Goods and Services Tax Ruling GSTR 1999/D8 (for supplies that are not financial supplies).

Date of effect

6. This Ruling, when finalised, will apply on and from 8 July 1999 (the date of Royal Assent to the GST legislation).

Background

7. If you are registered or required to be registered, GST is payable on the taxable supplies you make in a tax period. However, you can claim a credit (called an **input tax credit**) for the GST included in the price of things you acquire for carrying on your enterprise (called **creditable acquisitions**).[1] You can also claim an input tax credit for the GST payable on goods you import for carrying on an enterprise (**creditable importations)**.[2] The amount of the input tax credit depends on the extent to which the acquisition or importation is for a **creditable purpose**.

8. The difference between your total GST payable and your total input tax credits for a period is called your net amount. Your net amount is increased or decreased by adjustments you have for the tax period.

Ruling

When an adjustment arises

9. You may have an adjustment for an acquisition or importation where there is a difference between the *actual* use and the *planned* use of the thing for a creditable purpose. An adjustment also arises where

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[1] Section 11-20.
[2] Section 15-15.

there is a difference between the actual use of the thing up to the end of one adjustment period, and the actual use of it up to the end of the previous adjustment period.[3] These adjustments are made in a tax period called an adjustment period.

Acquisitions or importations for which an adjustment does not arise

10. An adjustment does not arise under Division 129 for an acquisition or importation:

- if the GST exclusive value of the acquisition or importation does not exceed a certain threshold;[4]
- if a previous adjustment for the acquisition has arisen under Division 130;[5]
- because of the operation of the **financial supplies threshold;**[6] or
- if it is a creditable acquisition and is supplied as a gift to certain types of charitable bodies.[7]

11. For the purpose of applying the thresholds in Division 129, the Commissioner takes the view that the GST exclusive value of an acquisition or importation means the GST exclusive value of each of the things acquired or imported. (See paragraphs 27 and 28.)

How to work out if an adjustment arises

12. To work out if an adjustment has arisen, you must:[8]

- work out the actual application of the thing expressed as a percentage;
- work out the intended or former application of the thing expressed as a percentage;
- then compare the two percentages. (See paragraphs 56 to 76.)

13. Where possible, you should use a direct method to work out the extent to which the acquisition or importation has been applied for a creditable purpose. If, for practical reasons, it is not possible to use a direct method, you can use an indirect method. We explain the

[3] Subsection 129-40(1).
[4] Section 129-10.
[5] Section 129-15.
[6] Subsection 129-5(2).
[7] Section 129-45.
[8] Subsections 129-40(1) and (2).

direct and indirect methods in draft Goods and Services Tax Rulings GSTR 1999/D8 (for acquisitions and importations generally) and GSTR 1999/D14 (for acquisitions and importations relating to financial supplies).

Working out the actual application of a thing for a period when the thing is not used at all for part of the period

14. When an acquisition or importation is not in use, you should treat the period of non-use as if the actual usage pattern applies over the period of non-use.

15. In calculating the actual application of the thing, you can apportion the non-use period according to the actual use pattern or simply disregard the non-use period. (See paragraphs 64 to 66).

How to work out the amount of the adjustment

16. To work out the amount of an increasing adjustment, you use the formula:[9]

full input tax credit x (intended or former application LESS actual application)

17. To work out the amount of a decreasing adjustment, you use the formula:[10]

full input tax credit x (actual application LESS intended or former application)

Working out the 'full input tax credit' (to work out the amount of an adjustment)

18. In many cases, the 'full input tax credit' is the amount of the input tax credit to which you would have been entitled, had you acquired or imported the thing solely for a creditable purpose.[11] (See paragraphs 79 to 81.)

19. When working out the amount of an adjustment for an acquisition or importation where there have been adjustments under Divisions 19 or 21, you work out the 'full input tax credit' as follows:

- adjust the original consideration for the thing to take into account all the changes in circumstances which gave rise to adjustments for it under Division 19 (about

[9] Section 129-70.
[10] Section 129-75.
[11] Paragraphs 129-70(a) and 129-75(a).

adjustment events) and Division 21 (about bad debts); then

- multiply the adjusted consideration by 1/11. The result is the 'full input tax credit'. (See paragraphs 82 to 84.)

Explanations (this forms part of the ruling)

20. These explanations are set out as follows:

- when an adjustment arises under Division 129 (see paragraph 21);
- the acquisitions or importations to which the Division applies (see paragraphs 22 to 23);
- acquisitions or importations for which an adjustment does not arise (see paragraphs 24 to 38);
- what are the adjustment periods for an acquisition or importation (see paragraphs 39 to 55);
- how to work out if an adjustment arises for the acquisition or importation in an adjustment period (see paragraphs 56 to 76);
- how to work out the amount of that adjustment for the acquisition or importation (see paragraphs 77 to 88);
- in what tax period you must attribute the adjustment (see paragraph 89).
- record keeping (see paragraphs 90 to 92).

When an adjustment arises

21. An adjustment arises for an acquisition or importation in an adjustment period where there is a difference between the actual use and the planned (or intended) use of the thing for a creditable purpose. An adjustment also arises where there is a difference between the actual use of the thing up to the end of one adjustment period, and the actual use of it up to the end of the previous adjustment period (the former use).[12]

[12] Subsection 129-40(1).

Acquisitions or importations to which the Division applies

22. Adjustments can arise under Division 129 for all acquisitions or importations even if they are not creditable acquisitions or creditable importations.[13]

Example

23. Andrew is a landscape architect who is registered for GST. He acquires a four wheel drive car solely for private use. Therefore, the acquisition is not a creditable acquisition and he was not entitled to claim an input tax credit. Later, he starts to use the car in his business, and he may be entitled to some credit for the GST paid. Andrew can apply Division 129 to work out if an adjustment has arisen for the car, even though it is not a creditable acquisition.

Acquisitions or importations for which an adjustment does not arise

24. An adjustment does not arise under this Division for an acquisition or importation:

- if the GST exclusive value of the acquisition or importation does not exceed a certain threshold;[14]
- if a previous adjustment for the acquisition has arisen under Division 130;[15]
- because of the operation of the financial supplies threshold;[16] or
- if it is a creditable acquisition and is supplied as a gift to certain types of charitable bodies.[17]

No adjustment where the GST exclusive value of the acquisition or importation does not exceed certain thresholds

25. An adjustment cannot arise where the GST exclusive value of an acquisition or importation is less than or equal to:[18]

- $10,000 – for an acquisition or importation which **relates to business finance**; or
- $1,000 – for any other acquisition or importation.

[13] Subsection 129-5(1).
[14] Section 129-10.
[15] Section 129-15.
[16] Subsection 129-5(2).
[17] Section 129-45.
[18] Section 129-10.

26. The GST exclusive value of the acquisition or importation is also relevant for determining the number of adjustment periods for the acquisition or importation (adjustment periods are explained below – see paragraphs 39 to 55).

What is an 'acquisition' or 'importation' for the purposes of the GST exclusive value thresholds

27. You can acquire or import several things when you make an acquisition or an importation. For the purpose of applying the thresholds in Division 129, we consider that the GST exclusive value of an acquisition or importation means the GST exclusive value of each thing acquired or imported.

Example

28. Sophie's Hardware buys a computer package, desk and photocopier from Acme Office Supplies. The price and GST exclusive value of the items are:

	Price	**GST exclusive value**
Computer Package	$5500	$5000
Desk	$ 440	$ 400
Photocopier	$1650	$1500

All of the items are delivered at the same time and are recorded on the one invoice. Sophie's Hardware applies the GST exclusive value thresholds against each item separately. An adjustment can only arise in respect of the computer and the photocopier. The GST exclusive value of the desk is below the threshold.

Supplies and acquisitions made for a period or on a progressive basis

29. An acquisition that is made for a period or on a progressive basis, and for consideration that is to be provided on a progressive or periodic basis, is treated as if each progressive or periodic component of the acquisition were a separate acquisition.[19] For example, if you lease a building, each progressive component of the lease is treated as a separate acquisition.

[19] Section 156-20.

No adjustment where there has been an adjustment under Division 130

30. Division 130 is about adjustments arising for an acquisition or importation because you have applied it solely for a private or domestic purpose. An adjustment cannot arise under Division 129 for an acquisition where you have already had an adjustment under Division 130 for the acquisition.[20]

No adjustment where the annual turnover of financial supplies is below the financial supplies threshold

31. Under the basic rules, you apportion input tax credits according to the extent to which you acquire or import a thing for a creditable purpose.[21] For working out the extent of creditable purpose, you can treat the intended use of an acquisition for making financial supplies as being for a creditable purpose, if your annual turnover of financial supplies does not exceed the financial supplies threshold.

32. Similarly, under Division 129, if your annual turnover of financial supplies does not exceed the financial supplies threshold you disregard any change in the extent to which the thing is applied in making financial supplies in determining if an adjustment arises.[22]

33. Thus, an adjustment does not arise if the intended or former application differs from the actual application merely because there is a change in the extent to which the thing is applied in making financial supplies.

Example

34. Jeremy uses his computer to record financial supplies more than he intended. His annual turnover of financial supplies is below the financial supplies threshold and he does not make any other input taxed supplies. Therefore, Jeremy disregards the change in the extent to which the computer is used for making financial supplies when determining whether an adjustment arises.

No adjustment for the supply of certain gifts to some charitable bodies

35. If you were entitled to an input tax credit for the acquisition, an adjustment does not arise for an acquisition only because you

[20] Section 129-15.
[21] Divisions 11 and 15.
[22] Paragraph 129-5(2)(a).

supplied it as a gift to a charitable institution, a trustee of a charitable fund or a gift-deductible entity.[23]

36. That is, an adjustment does not arise if the intended or former application differs from the actual application because the thing is supplied as a gift to a charity.

37. Gifts are unconditional. If you supply the thing to a charity in exchange for something else, the supply will not be a gift.

Example

38. Michael owns and operates a mini-bus for which he is entitled to an input tax credit. He supplies some transportation services to a gift-deductible body as a gift. He receives nothing in return for the supply. Michael disregards the extent to which he supplied the transport services to the gift-deductible body when working out the actual application of the mini bus for a creditable purpose.

What are the 'adjustment periods' for an acquisition or an importation

39. An adjustment period is a tax period in which you make an adjustment under Division 129. Adjustment periods generally occur once a year. The number of adjustment periods for a thing depends on its value and whether or not it relates to business finance. There are some special rules for deciding your last adjustment period for a thing (see paragraphs 48 to 55).

What is an adjustment period

40. An adjustment period for an acquisition or importation is a tax period applying to you that:[24]

- starts at least 12 months after the end of the tax period to which an input tax credit for the acquisition or importation is attributable; and
- ends on 30 June, or, if none of your tax periods end on 30 June, the tax period which ends closer to the 30 June than any other tax period.

Example

[23] Section 129-45.
[24] Subsection 129-20(1).

41. Andrew is registered and has quarterly tax periods. He acquires some machinery on 15 March 2001 for his business. The GST exclusive value of the machinery was $100,000. An input tax credit of $10,000 was attributable to the tax period ending 31 March 2001.

42. Andrew's first tax period that ends on the 30 June and starts at least 12 months after the end of the tax period to which an input tax credit for the acquisition is attributable, is the tax period 1 April to 30 June 2002. This is Andrew's first adjustment period for the machinery.

43. If an input tax credit was not attributable because the thing was not a creditable acquisition or creditable importation, you treat the thing as if it was a creditable acquisition or a creditable importation.[25] Then you work out the adjustment period as above.

Determining the number of adjustment periods there are for an acquisition or importation

44. The number of adjustment periods for an acquisition or importation you have depends on:[26]

- the GST exclusive value of the acquisition or importation; and
- whether or not the acquisition or importation relates to business finance.

45. The adjustment periods for acquisitions or importations which do not relate to business finance are as follows:[27]

GST-exclusive value of the thing acquired or imported	Adjustment periods
$1,000 or less	None
$1,001 to $5,000	Two
$5,001 to $499,999	Five
$500,000 or more	Ten

46. The adjustment periods for acquisitions or importations which relate to business finance are as follows:[28]

GST-exclusive value of the thing	Adjustment periods

[25] Paragraph 129-20(1)(a).
[26] Subsection 129-20(2) and 129-20(3).
[27] Subsection 129-10(2) and 129-20(3).
[28] Subsection 129-10(1) and 129-20(2).

acquired or imported	
$10,000 or less	None
$10,001 to $50,000	One
$50,001 to $499,999	Five
$500,000 or more	Ten

Example

47. Continuing the example in paragraph 41, as the GST exclusive value of the machinery is $100,000 and it is not used in relation to business finance, Andrew has 5 adjustment periods for the machinery. The adjustment periods are:

1 April 2002 to 30 June 2002;

1 April 2003 to 30 June 2003;

1 April 2004 to 30 June 2004;

1 April 2005 to 30 June 2005; and

1 April 2006 to 30 June 2006.

Other rules which affect the timing of your last adjustment period

48. The way you work out your last adjustment period for an acquisition or importation will be different if:

- you have a concluding tax period under section 27-40;
- the acquisition or importation belongs to a class for which the Commissioner has determined a fewer number of adjustment periods;
- your acquisition or importation is disposed of, lost, stolen, or destroyed, or the thing is acquired for a certain period which expires.

Your concluding tax period under section 27-40

49. Your concluding tax period is an adjustment period.[29] A concluding tax period is the tax period in which:

- an individual dies, becomes bankrupt, or ceases to carry on any enterprise;

[29] Section 129-20(1).

- any other entity goes into liquidation or receivership, ceases to carry on any enterprise, or for any reason ceases to exist; or
- an entity's registration is cancelled.

50. If you ceased to carry on an enterprise, your tax period concludes at the end of the day on which the cessation occurs. If a person dies or becomes bankrupt, or if an entity goes into liquidation or receivership, the tax period concludes at the end of the day before the particular event occurs. If your registration is cancelled your tax period at the time is taken to have ceased at the end of the day on which the cancellation takes effect.[30]

The Commissioner's determination having regard to record keeping requirements under income tax law

51. For acquisitions or importations not relating to business finance, the Commissioner can determine that there are a fewer number of adjustment periods for a particular class of acquisitions or importations. In making his determination, the Commissioner shall have regard to the record keeping requirements for income tax.[31]

Acquisitions or importations disposed of, lost, stolen, or destroyed, etc.

52. An acquisition or importation may be disposed of, lost, stolen, or destroyed, or the period for which you acquired it may expire. If such an event occurs, the last adjustment period for the acquisition or importation is the next tax period applying to you that ends:[32]

(a) on 30 June; or

(b) if none of them end on 30 June, the tax period that ends closer to 30 June than any other tax period applying to you

Example

53. Isabelle accounts for GST on a 3 monthly basis and has made an acquisition with a GST exclusive value of $10,000 on 20 August 2000. There are 5 adjustment periods in respect of the acquisition, the first of which starts 1 April 2002 and ends 30 June 2002. The acquisition was destroyed on 15 March 2002, before the first adjustment period. The last adjustment period for the

[30] Section 27-40.
[31] Subsection 129-20(3).
[32] Section 129-25(1).

acquisition is the tax period starting 1 April 2002 and ending 30 June 2002.

54. A different rule applies if the disposal is one which gives rise to a decreasing adjustment under Division 132.[33] You may have a decreasing adjustment under Division 132 if you sell an acquisition or importation that you acquired, imported or applied to make financial supplies.[34]

55. If the disposal is one which gives rise to a decreasing adjustment under Division 132, then the adjustment period which preceded the disposal is the last adjustment period.[35] However, in the case where the disposal occurs before the first adjustment period for the thing, then the thing does not have an adjustment period.[36]

How to work out if an adjustment arises for an acquisition or importation in an adjustment period

56. An adjustment arises for an acquisition or importation in an adjustment period where there is a difference between the actual use and the planned (or intended) use of the thing for a creditable purpose. An adjustment also arises where there is a difference between the actual use of the thing up to the end of one adjustment period, and the actual use of it up to the end of the previous adjustment period (the former use).[37]

57. The actual use of a thing for a creditable purpose over a certain period of time is called the 'actual application of the thing'. The planned or former use of a thing for a creditable purpose is called the 'intended or former application of the thing'.

58. To work out if an adjustment has arisen, you must:[38]

- work out the actual application of the thing expressed as a percentage;
- work out the intended or former application of the thing expressed as a percentage;
- then compare the two percentages.

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[33] Subsection 129-25(1).
[34] Section 132-1.
[35] Subsection 129-25(2).
[36] Subsection 129-25(2).
[37] Subsection 129-40(1).
[38] Subsections 129-40(1) and (2).

Working out the 'actual application of the thing'

59. Your actual application of a thing is the extent to which you applied it for a creditable purpose, during the period:

- starting at the time you acquired or imported it; and
- ending at the end of the relevant adjustment period.[39]

60. Thus, the actual application of the thing is a cumulative measurement of its use, starting from the time you acquired it and finishing at the end of the adjustment period, expressed as a percentage. (See paragraphs 90 to 92 regarding record keeping requirements.)

61. Where possible, you should use a direct method to work out the extent to which the acquisition or importation has been applied for a creditable purpose. If, for practical reasons, it is not possible to use a direct method, you can use an indirect method. We explain the direct and indirect methods in draft Goods and Services Tax Rulings GSTR 1999/D8 (for acquisitions and importations generally) and GSTR 1999/D14 (for acquisitions and importations relating to financial supplies).

Using direct methods to work out the actual application

62. When applying a direct method, you use records which reflect the application of the thing up to the end of the relevant adjustment period. For each acquisition or importation, you use this data in an appropriate formula, such as:

- for a motor car – kilometres travelled for a creditable purpose divided by total kilometres travelled;
- for a building – floor area used for a creditable purpose divided by total floor area; or
- for a computer – time used for a creditable purpose divided total time used.

Using indirect methods to work out the actual application

63. As with a direct method, you use records that reflect the use of the thing up to the end of the relevant adjustment period. For each acquisition or importation, you use this data in an appropriate formula such as:

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[39] Step 1, subsection 129-40(1).

- output based method – e.g., one expressing the total value of taxable supplies and GST free supplies as a percentage of total supplies; or
- input based method – e.g., one expressing the value of inputs directly allocated to making taxable supplies and GST-free supplies as a percentage of total inputs directly allocated.

Working out actual application of a thing for a period, a part of which the thing is not used at all

64. When an acquisition or importation is not in use, e.g., when it is being repaired or is idle, the period of non-use is to be treated as if the actual usage pattern applied over the period of non-use.

65. In calculating the actual application of the thing, you can apportion the non-use period according to the actual usage pattern or simply disregard the non-use period.

Example

66. Henry buys a car which he uses 60% for creditable purposes and 40% for private purposes. The vehicle is damaged in an accident and is not used for the three months it takes to have the damages repaired. In calculating the actual use of the vehicle, Henry can ignore the three month repair period. Therefore, provided his actual usage pattern does not change for the remainder of the adjustment period, the actual application of the vehicle for creditable purposes remains at 60%.

Working out the 'intended or former application of a thing'

67. To work out if an adjustment arises for an acquisition or importation, you compare the 'actual application of the thing' with the 'intended or former application of the thing'. The intended or former application of a thing is either:

- the planned application for a creditable purpose as at the time you acquired or imported the thing (i.e., the *intended* use);[40] or
- if there has been a previous adjustment under Division 129 for the thing – the actual application of the thing in

[40] Paragraph (a) of Step 2 in subsection 129-40(1).

respect of the previous adjustment period (i.e., the *former* use).[41]

Example

68. On 15 March 2001 Bill acquired a computer for $3,300, including $300 GST. He planned to use the computer 90% of the time in his business.

The first adjustment period for Bill's computer is 1 April to 30 June 2002. From the date of acquisition to 30 June 2002, Bill had used the computer 60% for business purposes. In applying subsection 129-40(1) for the first adjustment period, the actual use of the thing is 60% and the intended use of it is 90%. Therefore, an adjustment arises for that adjustment period.

The second adjustment period is 1 April to 30 June 2003. From the date of acquisition to 30 June 2003, Bill had used the computer 70% for business purposes. For the second adjustment period, the actual use of the computer is 70% and the former use of it is 60%. The actual application of the computer used for the last adjustment period (60%) becomes the 'intended or former application of the thing' for the current adjustment period.

Extent of creditable purpose for a reduced credit acquisition

69. Under the basic rules (in Divisions 11 and 15), you are not entitled to an input tax credit for an acquisition to the extent it relates to making financial supplies.[42] However, because of Division 70,[43] you may be entitled to a reduced input tax credit for certain acquisitions called reduced credit acquisitions.

70. The combined effect of Division 70 and the Regulations[44] is that you are entitled to 75% of the input tax credit that would not otherwise arise under the basic rules because the acquisition is used to make financial supplies.

71. Acquisitions of this kind can be subject to adjustments under Division 129. The extent to which a thing is acquired for a creditable purpose is worked out using Division 70.

[41] Paragraph (b) of Step 2 in subsection 129-40(1).
[42] This is subject to the operation of the financial supplies threshold, which is explained at paragraph 31
[43] Division 70 is about reduced input tax credits for certain acquisitions used to make financial supplies.
[44] Part 4-2 A New Tax System (Goods and Services Tax) Regulations 1999

72. For a reduced credit acquisition which is wholly creditable because of Division 70, the extent to which the thing is acquired for a creditable purpose is the reduced input tax credit percentage.[45]

Example

73. The XYZ Credit Union acquires a service specified in the regulations as a reduced credit acquisition for $110,000, including $10,000 GST. It intends to use the acquisition solely for making financial supplies. The percentage of input tax credit available for such an acquisition is specified in the regulations to be 75%. When applying section 129-40 for the acquisition, the XYZ Credit Union will use 75% as the extent to which it was acquired for a creditable purpose.

74. However, where a reduced credit acquisition is only partly creditable because of Division 70, the extent to which the acquisition is acquired or applied for a creditable purpose is worked out using the following formula:[46]

$$\text{Extent of creditable purpose} + \left(\text{Extent of Division 70 creditable purpose} \times \text{Percentage credit reduction}\right)$$

where:
extent of creditable purpose is the extent of creditable purpose otherwise than under Division 70, expressed as a percentage;

Extent of Division 70 creditable purpose is the extent of creditable purpose under Division 70, expressed as a percentage; and

Percentage credit reduction is the reduced input tax credit percentage.

Example

75. Following on from the example from paragraph 73, XYZ Credit Union find at the end of the first adjustment period that the reduced credit acquisition has been used 60% for making financial supplies and 40% for making taxable supplies. The extent to which the acquisition has been applied for a creditable purpose is:

$$40\% + (60\% \times 75\%) = 85\%$$

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[45] Subsection 129-40(3).
[46] Section 70-20.

Comparing the actual application with the intended or former application

76. An adjustment arises under Division 129 if the actual application of a thing differs from the intended or former application of the thing. Where the actual application is less than the intended or former application, the adjustment is an increasing adjustment.[47] Where the actual application is greater than the intended or former application of the thing, the adjustment is a decreasing adjustment.[48]

How to work out the amount of the adjustment

77. To work out the amount of an increasing adjustment, you use the formula:[49]

> full input tax credit x (intended or former application LESS actual application)

78. To work out the amount of a decreasing adjustment, you use the formula:[50]

> full input tax credit x (actual application LESS intended or former application)

79. In many cases, the 'full input tax credit' is the amount of the input tax credit to which you would have been entitled, had you acquired or imported the thing solely for a creditable purpose.[51]

Example

80. Continuing the example of Bill from paragraph 68, he intended to use the computer 90% for creditable purposes. The price of the computer included $300 GST. Therefore, the input tax credit for his computer was $270 ($300 x 90%). At the end of the first adjustment period, the actual application of the thing is 60% and the intended or former application of the thing is 90%. Thus, he has an increasing adjustment, the amount of which is worked out as follows:[52]

full input tax credit	x	intended or former application	LESS	actual application

that is:

[47] Step 3, subsection 129-40(1).
[48] Step 4, subsection 129-40(1).
[49] Section 129-70.
[50] Section 129-75.
[51] Paragraphs 129-70(a) and 129-75(a).
[52] Section 129-70.

full input tax credit	x	90%	LESS	60%

When working out the 'full input tax credit', Bill treats the intended extent of creditable purpose as being 100%, instead of being 90%. Thus, the 'full input tax credit' is $300. The amount of Bill's increasing adjustment is therefore:

full input tax credit	x	intended or former application	LESS	actual application

that is:

$300 x [90% LESS 60%] = $90

Example

81. Continuing the example of XYZ Credit Union from paragraphs 73 and 75, the extent to which the service was acquired for a creditable purpose is 75%, and the input tax credit was $7,500. At the end of the first adjustment period, the actual application of the service is 85% and the intended or former application of the service is 75%. Therefore the credit union has a decreasing adjustment which is worked out as follows:

full input tax credit	x	actual application	LESS	intended or former application

that is:

full input tax credit	x	85%	LESS	75%

The 'full input credit' is $10,000. It is worked out as if the extent of creditable purpose was 100%. Therefore the amount of the credit union's decreasing adjustment is:

$10,000 x [85% LESS 75%] = $1,000

82. In other cases, you may need to take into account adjustments for the acquisition under Division 19 (about adjustments for adjustment events) and Division 21 (about adjustments for bad debts) when working out the full input tax credit. By doing so, you ensure the Division 129 adjustment is calculated on the correct amount of consideration for the acquisition.

83. When there has been a previous adjustment under one of these Divisions, you work out the adjustments as follows:[53]

- increase or reduce your original consideration for the acquisition or importation, by an amount that reflects each event that had given rise to the previous adjustment; and
- then multiply that result by 1/11 (the amount of tax included in the price). The result is the 'full input tax credit'; and
- multiply the full input tax credit by the difference between the actual application and the intended or former application.

Example – taking into account a Division 21 adjustment

84. Elizabeth makes a creditable acquisition on 15 March 2001. The extent of creditable purpose is 90%. The consideration is $33,000. The input tax credit attributed to the tax period ending 30 March 2001 is $2,700 ($33,000 x 1/11 x 90%).

On 15 April 2001, an adjustment event occurs that causes a decrease in the consideration of $4,400 and this gives rise to an increasing adjustment under Division 19.

On 15 July 2001, Elizabeth's supplier writes off $2,200 of the debt. After applying Division 21, Elizabeth has an increasing adjustment of $180 ($2,200 x 1/11 x 90%) attributed to the tax period ending 30 June 2001.

At the end of the first adjustment period for the acquisition, the actual application of the thing is 50%. The intended or former application of the thing is 90%. Thus, Elizabeth has an increasing adjustment for the acquisition. The amount increasing adjustment is worked out as follows:[54]

(Full input tax credit) x (90% - 50%)

The amount of the 'full input tax credit' is:

Original consideration	$33,000
LESS $4,400	$28,600
LESS $2,200	$26,400
multiplied by 1/11	$2,400

Therefore, the amount of the adjustment is

[53] Section 129-80.
[54] Section 129-70.

$2,400 x (90% - 50%) = $960

Special rules for working out full input tax credit

85. Under Subdivision 72A (about supplies to associates without consideration), certain supplies are treated as taxable supplies even though there has been no consideration. Under Division 84 (about offshore supplies other than goods or real property), certain supplies are treated as taxable supplies even though they are not connected with Australia.

86. If the acquisition or importation is a taxable supply because of Subdivision 72A or Division 84, you work out the full input tax credit as if the supply of thing to you was a taxable supply under section 9-5.[55]

Amount of adjustment where annual turnover of financial supplies is below the financial supplies threshold

87. If your annual turnover of financial supplies does not exceed the financial supplies threshold, when working out the amount of an adjustment for an acquisition or importation, you disregard the change in the extent to which the thing is applied in making financial supplies.[56]

88. Therefore, an adjustment will only arise where there has been a change in the extent to which it is used for making other input taxed supplies or for a private or domestic purpose.

Attributing the adjustment to a tax period

89. An adjustment is attributable to the tax period in which the adjustment arises.[57]

Record keeping

90. If you make a creditable acquisition or creditable importation you must keep records that show and explain all transactions and other acts you engage in that are relevant to that acquisition or importation. You must retain those records for at least 5 years after the completion of the transaction or acts to which they relate. The records must be

[55] Sections 129-70(b) and 129-75(b)
[56] Paragraph 129-5(2)(b).
[57] Section 129-90.

such as to enable your liability under the GST Act to be readily ascertained.[58]

91. You should retain records relating to the calculation of adjustments for changes in the extent of creditable purpose. Where your acquisitions and importations are used wholly for a creditable purpose, you will have no adjustments under Division 129, and will not need to keep such records. However, if your acquisitions are not used wholly for a creditable purpose, some records will need to be kept in order to do the calculations. Records you normally keep may be sufficient to satisfy these requirements (e.g., depreciation schedules or motor vehicle log books). Where this is not the case, additional records may need to be kept.

92. Your calculation of changes in the extent of creditable purpose, should reflect the change in use from the time of acquisition up to the end of your adjustment period. It is not necessary to maintain a continuous record of the use of an acquisition or importation for the purpose of the calculation. It will be sufficient to make a reasonable estimate. This estimate can be based on the use of the thing for a representative period of use between the time of acquisition and the end of the first adjustment period, or between two adjustment periods. This will also apply, where you make an acquisition or importation that is not creditable, but which is subsequently applied for a creditable purpose, giving rise to an adjustment under Division 129. Draft Goods and Services Tax Ruling GSTR 1999/D8 and draft Goods and Services Tax Ruling GSTR 1999/D14 explain methods for determining the extent of creditable purpose.

Definitions

93. The following terms are defined for the purposes of this Ruling. Some of the terms are themselves defined in the GST Act.

Apply[59]

94. Apply, in relation to a thing acquired or imported, includes:

- supply the thing; and
- consume, dispose of or destroy the thing; and
- allow another entity to consume, dispose of or destroy the thing.

[58] Section 70 of the *Taxation Administration Act 1953.*
[59] Section 129-55.

Creditable acquisition[60]

95. You make a creditable acquisition if:

(a) you acquire anything solely or partly for a creditable purpose; and

(b) the supply of the thing to you is a taxable supply; and

(c) you provide, or are liable to provide, consideration for the supply; and

(d) you are registered, or required to be registered.

Creditable purpose[61]

96. You **apply** a thing for a creditable purpose to the extent that you apply it in carrying on your enterprise. However, you do not apply a thing for a creditable purpose to the extent that:

(a) the application relates to making supplies that are input taxed; or

(b) the application is of a private or domestic nature.

To the extent that an application relates to making financial supplies through an enterprise, or a part of an enterprise, that you carry on outside Australia, the application is not, for the purposes of paragraph (a) above, treated as one that relates to making supplies that would be input taxed.

Creditable importation[62]

97. You make a creditable importation if:

- you import goods solely or partly for a creditable purpose; and
- the importation is a taxable importation; and
- you are registered or required to be registered.

Financial supplies threshold[63]

98. The financial supplies threshold is the lesser of:

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[60] Section 11-5.
[61] Section 129-50.
[62] Section 15-5.
[63] This is not a defined term in the GST Act. It is only defined here for convenience.

- $50,000 (or such other amount specified in the regulations); or
- 5% of your annual turnover (treating supplies that are input taxed as part of your annual turnover)[64]

GST exclusive value[65]

99. GST exclusive value means :

- in relation to an acquisition (other than a luxury car) – 10/11 of the price of the supply of the thing being acquired; or
- in relation to the acquisition of a luxury car – 10/11 of the price of the supply of the luxury car (excluding any luxury car tax payable on the supply)
- in relation to an importation that is a taxable importation – the value of the importation; or
- in relation to an importation that is not a taxable importation – the amount that would be the value of the importation if it were a taxable importation.

Input tax credit

100. Input tax credit is the credit you are entitled to for the GST included in the price you pay for an acquisition or the GST paid on an importation, if it is for use in your enterprise. The entitlement arises under section 11-20 (about creditable acquisitions) or section 15-15 (about creditable importations).

Relates to business finance[66]

101. An acquisition or importation relates to business finance, if at the time of the acquisition or importation, it:

(a) related solely or partly to making financial supplies; and

(b) was not solely or partly of a private or domestic nature.

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[64] Press Release No. 013 issued by the Treasurer on 15 March 2000 states that a new threshold for financial supplies will be introduced. Any changes to the threshold will be reflected in the final Ruling.
[65] Section 195-1.
[66] Subsection 129-10(3).

Detailed contents list

102. Below is a detailed contents list for this draft Ruling:

Your comments

103. If you wish to comment on this draft Ruling, please send your comments promptly by **31 March 2000** to:

Contact Officers: Noelene Ribkonen
Telephone: (07) 3213 5225
Facsimile (07) 3852 4882
Email noelene.ribkonen@ato.gov.au
Address Ms Noelene Ribkonen
GST Rulings Unit
GPO Box 920
BRISBANE QLD 4001.

Commissioner of Taxation
29 March 2000

Previous draft:
Not previously issued in draft form

Related Rulings/Determinations:
GSTR 1999/D8; GSTR 1999/D14;

Subject references:
- acquisition
- acquisition
- disposal
- destruction
- actual application of the thing
- adjustment
- adjustment period
- attribution
- business finance
- concluding tax period
- creditable acquisition
- creditable purpose
- financial supplies
- full input tax credit
- gift
- goods applied solely to private or domestic use
- GST exclusive value
- importation
- intended or former application of the thing
- progressive or periodic acquisitions
- reduced credit acquisition
- relates to business finance
- tax period

Legislative references
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- ANTS(GST)A 1999 11-15
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