Australian Government
Australian Taxation Office

GST data tests for the financial services and insurance industry

The following financial services and insurance industry data tests are designed to address specific goods and services tax (GST) risks relevant to entities in the financial services and insurance industry and to be conducted in ATO reviews of Top 100 and Top 1000 entities (where those reviews include data testing).

These industry-specific tests complement the general tests outlined in section 5 and Appendix 4 of the GST Governance, Data Testing and Transaction Testing Guide. These tests are relevant to a range of entities, such as banks, investment funds, general insurers, life insurers and other financial services providers.

We note that many entities are embedding the specific tests into their systems to run data analytics on a regular basis, which is a good way to ensure correct GST reporting.

The tests will need to be tailored to what is appropriate for your business; for example, the tests for financial services entities will need to be tailored having regard to how your business recovers GST (such as whether GST is recovered at a business unit or cost centre level) and to take into account any internal recharges.

The ATO is not necessarily limited to the tests set out in this paper when conducting its testing and may conduct additional tests. The testing conducted will ultimately depend on the facts and circumstances, the outcomes sought and the availability of data. In addition to data testing, the ATO will also conduct transactional testing as part of a GST review.[1]

Note that any test giving rise to exceptions does not necessarily give rise to an assumption that the incorrect GST treatment has been applied. Instead, the tests are aimed at highlighting transactions for further consideration.

We also acknowledge that a number of the tests may require certain sub-tests or additional logic tests to be performed.

All legislative references in this paper are to the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act), unless otherwise indicated.

Specific GST data tests for financial services entities

These tests are relevant to entities making financial supplies, such as banks, life insurers, investment funds, credit unions and some Fintech entities.

Table 1: Industry-specific data tests for entities making financial supplies

Test description	Why we do the test
	Consistent GST treatment of supplies
1. Is the GST treatment of supply types consistent?	Supplies made by financial services entities could be taxable, GST-free or input taxed. The test is to reference a supply type (by supply description or code) to see whether the GST treatment is applied consistently and to highlight exceptions.

[1] Data testing involves running a number of pre-determined tests against a defined data set to identify potential reporting errors and exceptions for further investigation and or correction. Transaction testing involves tracing an identified transaction from its source documentation through to the financial reports to confirm the accuracy of the GST treatment, calculation and reporting of the transaction. See Part 5 of the GST Governance, Data Testing and Transaction Testing Guide.

Test description	Why we do the test
	For example, the tests may highlight exceptions where transactions recorded or coded as finance leases, operating leases or hire purchase were not consistently treated as being taxable. Data can be tested to identify instances where: • the assigned tax code or tax treatment does not follow expected GST classification. • the tax codes or tax treatment applied does not follow most commonly applied GST treatment based on particular attributes (for example. transaction type, cost centre). • transactions were coded as being taxable but no GST was remitted or where transactions were coded as being non-taxable but GST was remitted.
Consistent GST treatment of acquisitions	
2. Is the GST recovery (being full, partial or reduced input tax credit (RITC)) of a type of acquisition consistent?	When acquisitions are made, the GST recovery could be: • 100% extent of creditable purpose (ECP) • 0% ECP • 75% or 55% RITC only (or a hybrid rate for certain acquisitions) • apportionment rate (partial ECP) • apportionment rate plus RITC The test is to reference an acquisition type (by acquisition description or coding) to see whether the GST recovery applied within a business unit or cost centre is consistent and highlight exceptions; for example, whether the treatment is consistently applied across similar types/classes of transactions, reporting entities, general ledger accounts or project codes.
3. Is the GST recovery (being full, partial or RITC) for a particular supplier consistent within a cost centre or business unit?	When acquisitions are made, the GST recovery could be: • 100% ECP • 0% ECP • 75% or 55% RITC only (or a hybrid rate for certain acquisitions) • apportionment rate (partial ECP) • apportionment rate plus RITC The test is to reference acquisitions from a particular supplier to see whether the GST recovery applied within a business unit or cost centre is consistent and to highlight exceptions.
4. Are transactions recorded in the correct reporting area?	The test is to reference if certain types of acquisitions are recorded in the appropriate reporting area and subject to the appropriate ECP for the recovery of any GST (for example, acquisitions related to the making of input taxed supplies are not incorrectly recorded in a reporting area with a fully recoverable ECP).
Input tax credit or RITC claim with no GST incurred	
5. Where a cost is tagged for input tax credit (ITC) or RITC claims, was GST incurred on the cost or was the reverse charge applied?	This test checks that for costs upon which an ITC or RITC is claimed, GST was either incurred: • on the cost as a charge by the supplier, or • under the reverse charge mechanism. That is, an exception test can be performed to identify instances where an ITC or RITC was claimed but no GST was incurred on the acquisition.

Test description	Why we do the test
	Transaction reversals
6. Are transaction reversals consistent with the original transaction posting for full, partial or RITC recovery?	When acquisitions are made, the GST recovery could be: • 100% ECP • 0% ECP • 75% or 55% RITC only (or a hybrid rate for certain acquisitions) • apportionment rate (partial ECP) • apportionment rate plus RITC The test is to ensure that any adjustment is given the same GST recovery treatment as the original transaction. The above would also need to be considered in the context of any acquisitions which were subject to the reverse charge. Where the apportionment model changes over time (for example, monthly transaction count or revenue model), an adjustment for an earlier supply may be processed when a different ECP percentage arises than the ECP percentage at the time the original purchase was processed. The test is to ensure that any adjustment is given the same GST recovery treatment as the original transaction.
	Application of the reverse charge
7. Invoices from overseas suppliers of services and reverse charges	Where invoices for offshore acquisitions or transfers are received from an overseas address, there is the potential that the acquisition will be subject to the reverse charge. This test should highlight and cross-reference these accounts payable invoices to see whether they are entered into the relevant account for consideration of the reverse charge and highlight any exceptions.
8. Invoices in currency other than A$ and reverse charge	Where an accounts payable invoice for services is paid in non-A$ currency, this may indicate that the supply is subject to the reverse charge being services received from overseas. The test should highlight instances where accounts payable invoices paid in other than A$ where the reverse charge was not applied.
9. Is the GST reverse charge being consistently applied for a particular supplier?	This test considers whether supplies from a particular (overseas) supplier are consistently reverse charged.
	Recipient-created tax invoices
10. Confirm that recipient-created tax invoices (RCTIs) are only issued to suppliers with an Australian business number (ABN) and verified GST-registration status	Where the entity issues RCTIs, this test will highlight instances of an RCTI being issued to a supplier (for example, a broker) that is not registered for GST.

Specific GST data tests for general insurers

Table 2: Industry-specific data tests for entities making taxable supplies of insurance

Test description	Why we do the test
	Premiums and commissions
1. Correct classification of premiums	This test will highlight whether premiums have been correctly treated as being taxable or GST-free by reference to the insurance policy type and the location of the risk. The test will highlight instances where GST on the premium is not 10% but the risk location is in Australia, or where the insurance policy type is expected to be taxable. Where the risk insured is partly onshore and partly offshore, the test will confirm that the premium has been correctly classified.
2. All premiums received have consistent tax coding	This test will highlight instances where inconsistent tax codes have been applied to premium transactions.
3. Confirm GST amounts on general insurance supplied is 10% of the premium on a taxable policy (excluding stamp duty)	This test will highlight instances where GST may have been over or under paid on taxable insurance policies.
4. Confirm that RCTIs are only issued to suppliers and agents with an ABN and verified GST-registration status	This test will highlight instances of an RCTIs being issued to a supplier or agent where they are not registered for GST.
	Claims
5. Decreasing adjustment formula setup	This test will verify that the statutory formula as set out in section 78-15 has been correctly applied to claims. This should highlight instances where the standard system approach may have been overridden and an incorrect DA value calculated.
6. Check for claims on GST-free policies incorrectly processed under Divisions 11 and 78	This test will highlight instances where claims on GST-free policies (for example, overseas travel insurance) have been incorrectly processed as a Division 78 decreasing adjustment or as ITCs under Division 11.
7. Check for claims incorrectly processed under Division 11 instead of Division 78	This test will highlight whether amounts are incorrectly processed under Division 11 when they should have been treated as a decreasing adjustment under Division 78. An exception indicator would be where the claim is cash-settled and the payee matches the insured or the payee is not on the vendor master file (that is, payee is not set up as a supplier to the insurer) but a Division 11 ITC is claimed instead of a Division 78 decreasing adjustment.
8. Acquisitions of the same type (for example, repair or other goods and services) have consistent tax coding	This test will highlight where invoicing for a particular type of acquisition has potentially been incorrectly coded.
	ITC entitlement of insured
9. Check whether ITC entitlement information is held on record	This test will highlight where the policy premium ITC entitlement information of the insured is absent.
10. Alignment of data between ITC entitlement equals 0%, insured parties' ABN and GST registration status and	Recognising that the insured who is registered for GST will generally have some entitlement to ITCs, this test highlights instances such as where ITC entitlement equals 0% or where a full decreasing adjustment has been claimed, but the insured is GST-registered.

Test description	Why we do the test
decreasing adjustment claimed **ITC entitlement < 100% may also be tested**	Businesses may consider this as a best practice test as it is not a requirement. We may apply this test as an overall sense check.
11. Check that ITC entitlement information of insured on the premiums is used in calculating decreasing adjustment	This test confirms that information gathered on the insured's ITC entitlement on the premium is used for calculation of decreasing adjustments (as opposed to the insured's ITC entitlement on repairs or replacements used to determine the amount paid in settlement).
Excess	
12. Safe harbour has been correctly applied to increasing adjustment for excess received (if you use the safe harbours outlined in Insurance Industry Partnership – issues register, issue 34)	This test will highlight instances where GST payable on the excess received is different to what is expected for a particular class of policy.
13. Excess has been either factored into the original decreasing adjustment calculation or an increasing adjustment (where appropriate) is correctly identified	This test will highlight instances where an excess has not been factored into the calculation of a decreasing adjustment or an increasing adjustment has not been made.
Recoveries	
14. Subrogation data matches the increasing adjustments	This test will highlight instances where increasing adjustments on recoveries (subrogation) have not been performed as required by section 78-40.
15. Confirm sale of salvaged goods receives consistent tax coding	This test will highlight instances where inconsistent tax codes have been applied to sales of salvaged goods. The test should highlight any instances of sales of salvaged goods where GST has not been applied at 10%.