



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

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 This publication is extracted from the Financial Services: questions and answers register. See issue 1.18 of that register. This publication should be read in conjunction with the related content of that register where further context is required.



## Financial Services: Questions and Answers

### Input tax credits and hire purchase – acquisition of a car

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This publication (excluding appendixes) is a public ruling for the purposes of the *Taxation Administration Act 1953*.

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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.

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

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