



GSTA TPP 026 - Goods and services tax: Can a full input tax credit for the GST in the principal component be claimed at the start of a hire purchase agreement, regardless of whether cash or accrual accounting is adopted?

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 This document has changed over time. This is a consolidated version of the ruling which was published on 14 June 2005



Goods and Services Tax Advice

Goods and services tax: Can a full input tax credit for the GST in the principal component be claimed at the start of a hire purchase agreement, regardless of whether cash or accrual accounting is adopted?

Preamble

*This document is a ruling for the purposes of section 37 of the Taxation Administration Act 1953. It illustrates the principles contained in **Goods and Services Tax Ruling GSTR 2000/29 on attribution rules**. You can rely on the information presented in this document, which provides advice on the operation of the GST system.*

Answer

No, the normal attribution rules set out in subsection 29-10 of the *A New Tax System (Goods and Service Tax) Act 1999* (GST Act) apply.

Background

The total amount payable by a recipient under a hire purchase agreement is typically made up of a principal component (that is, the amount financed) and a credit component (that is, the terms and charges). The principal component represents the price of the goods financed and the credit component represents the interest and associated fees and charges payable by the recipient.

GST is payable on the amount of the principal component if the supply of the goods is a taxable supply. The credit component is not subject to GST if it is provided separately and disclosed to the recipient of the goods under item 8 in the table in subregulation 40-5.09(3) of the GST regulations.

The charge is 'disclosed' to the recipient of the goods for the purpose of item 8 if in the hire purchase agreement:

- the dollar amount of the credit charge
- the interest rate
- the formula(s) used to calculate the amount of the credit charge, or

- any other relevant information sufficient to work out the amount of the credit charge

is made known to the recipient.

Therefore, if the credit component is not disclosed to the recipient, the entire hire purchase agreement (principal and credit) is subject to GST.

Explanation

If the recipient accounts for GST on a cash basis and the item purchased is a creditable acquisition, the recipient is entitled to an input tax credit on the principal component, in a tax period, to the extent of payment made.

Where the recipient accounts for GST on a non-cash basis and the item purchased is a creditable acquisition, the recipient is entitled to the entire input tax credit on the principal, in the tax period in which the invoice is received or in which any payment is made, whichever is earlier.

The recipient is required to hold a tax invoice in order to claim input tax credits, irrespective of whether the recipient accounts on a cash basis or non-cash basis

Note: The Commissioner, not being satisfied that the application of the basic and relevant special attribution rules produces an inappropriate result, has not made special determinations under section 29-25 of the GST Act for supplies and acquisitions made under hire purchase agreements.

Application of this GST Advice

This Advice is based on GSTR 2000/29. It explains our view of the law as it applied from 1 July 2000. You can rely on this Advice on and from its date of issue for the purposes of section 37 of the *Taxation Administration Act 1953*. Goods and Services Tax Ruling GSTR 1999/1 explains the GST rulings system and our view of when you can rely on our interpretation of the law in GST public and private rulings.

If this Advice conflicts with a previous private ruling that you have obtained, this public ruling prevails. However, if you have relied on a private ruling, you are protected in respect of what you have done up to the date of issue of this public ruling. This means that if you have underpaid an amount of GST, you are not liable for the shortfall prior to the date of issue of this later ruling. Similarly, you are not liable to repay an amount overpaid by the Commissioner as a refund.

Commissioner of Taxation

Date

Subject references:

attr bution
cash basis
creditable acquisition
hire purchase
input tax credits
invoice
tax invoice

Legislative references:

ANTS(GST)A 1999 29-10
TAA 1953 37

ATO references

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