



***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?***

 This cover sheet is provided for information only. It does not form part of *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?*

 This document has changed over time. This is a consolidated version of the ruling which was published on *11 June 2014*



## 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 was published prior to 1 July 2010 and was a public ruling for the purposes of former section 37 of the **Taxation Administration Act 1953** and former section 105-60 of Schedule 1 to the **Taxation Administration Act 1953**.*

*From 1 July 2010, this document is taken to be a public ruling under Division 358 of Schedule 1 to the **Taxation Administration Act 1953**.*

*A public ruling is an expression of the Commissioner's opinion about the way in which a relevant provision applies, or would apply, to entities generally or to a class of entities in relation to a particular scheme or a class of schemes.*

*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.*

**[Note 1:** This is a consolidated version of this document. Refer to the Legal Database (<http://law.ato.gov.au>) to check its currency and to view the details of all changes.]

**[Note 2:** The views expressed in this ruling only apply where the hire purchase agreement has been entered into prior to 1 July 2012.]

### 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.*

**Related Rulings/Determinations/GST Advice:**

TR 2006/10

**Subject references:**

attribution  
cash basis  
creditable acquisition  
hire purchase  
input tax credits  
invoice  
tax invoice

**Legislative references:**

ANTS(GST)A 1999 29-10  
TAA 1953 Sch 1 Div 358

**ATO references**

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**Application of this GST Advice**

This Advice applies both before and after its date of issue where the hire purchase agreement has been entered into before 1 July 2012. However, this Advice will not apply to taxpayers to the extent that it conflicts with the terms of a settlement of a dispute agreed to before the date of issue of this Advice (see paragraphs 75 and 76 of Taxation Ruling TR 2006/10).

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**Commissioner of Taxation**14 June 2005

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