GSTB 2000/4 - How you calculate and pay GST on a progressive or periodic supply that spans 1 July 2000.

GST Bulletin

GSTB 2000/4

Australian Taxation Office

How you calculate and pay GST on a progressive or periodic supply that spans 1 July 2000.

Date of Issue: 12 July 2000

This Bulletin will apply on and from 8 July 1999, the date of Royal Assent to the GST legislation.

Background

A special transitional rule applies when you make a supply under an agreement or an enactment and the supply is made:

- for a period; or
- progressively over a period;

where the period spans 1 July 2000. The supply is regarded as having been made continuously and uniformly over the period. This rule applies regardless of whether the supply is made at regular intervals.

The type of supply that could be a periodic or progressive supply includes:

- memberships of clubs or organisations;
- magazine or newspaper subscriptions;
- other subscriptions;
- insurance policies;
- supplies under service or maintenance contracts;
- supplies by public utilities; and
- public transport tickets issued for a specific period;

This rule will not apply to the extent that you supply goods or real property under a written agreement spanning 1 July 2000 for the construction, major reconstruction, manufacture or extension of a building or a civil engineering work. A separate GST Ruling addresses this issue.

The Australian Competition and Consumer Commission (ACCC) has issued guidelines to help business implement pricing strategies that ensure consumers benefit from the taxation changes and are not exposed to unnecessary price rises. The ACCC will monitor prices to ensure that all price changes are adjusted properly.

Contents

This Bulletin addresses the tax periods when GST is attributable on a progressive or periodic supply when you:

- use a cash basis of accounting;
- use a non cash basis of accounting;
- receive payments by instalments.

This Bulletin also contains formulae to calculate GST on a periodic or progressive supply which spans 1 July 2000 when:

- you wish to determine a GST inclusive price;
- you have not taken GST into account when determining the price;
- you wish to calculate input tax credits;
- the supply is GST-free for a period on or after 1 July 2000;
- the supply is GST-free or input taxed.

When will a periodic or progressive supply not be subject to GST?

If you make a supply under a written agreement made before:

- 8 July 1999 if the recipient is entitled to a full input tax credit for the supply; or
- 2 December 1998 if the recipient is not entitled to a full input tax credit for the supply;

the supply may not be subject to GST.

If the written agreement identifies the supply and the consideration, the supply will be GST-free until the earlier of:

- 1 July 2005; or
- a review opportunity that arises under the agreement.

How do you calculate GST on a periodic or progressive supply which spans 1 July 2000?

If you make a periodic or progressive supply that spans 1 July 2000, then GST is payable on that part of the consideration that is for the period on or after 1 July 2000. If your customer reimburses you for any taxes, fees or charges, these amounts will form part of the consideration, regardless of whether the tax, fee or charge that was originally imposed on you was subject to GST. An example of a tax which is commonly passed on to a customer is stamp duty. In these circumstances, GST is payable on the consideration (including stamp duty) unless the supply is an insurance policy.

Where you are making a supply of an insurance policy, stamp duty is excluded from the consideration when calculating the amount of GST payable (section 78-5 of the *A New System (Goods and Services Tax) Act 1999*).

The GST payable on the part of the supply that is for the period on or after 1 July 2000 is calculated using the following formula:

$$\textit{GST} = \textit{Consideration (excluding GST)} \times \frac{\textit{days on or after 1 July 2000}}{\textit{total days in the period}} \times 10\%$$

Example

Shauna enters into an agreement to hire Owen a television for a year. 124 days of the hire period are on or after 1 July 2000. The fee (excluding GST) for the hire is $2,500. Shauna calculates the GST payable as follows:

$$\text{GST} = \$2{,}500 \times \frac{124}{366} \times 10\%$$

GST = $84.70

The price of the supply to Owen is $2,584.70.

Note: This calculation will not apply where you supply commercial residential premises that are predominantly for long-term accommodation (and are provided to an individual on that basis). It will also not apply where the supply is partly GST-free or input taxed. Supplies that are partly GST-free or input taxed are addressed separately in this Bulletin.

How do you calculate GST when you have not taken it into account when determining the price?

If you have entered into an agreement to make a periodic or progressive supply that spans 1 July 2000, and did not take GST into account when determining the price, GST may still be payable. Any part of the supply that is a taxable supply (generally the part of the supply that is made on or after 1 July 2000) will be subject to GST.
You calculate the amount of the consideration which relates to the period on or after 1 July 2000 (consideration for the taxable supply) as:

$$\frac{\textit{Price} \times \textit{number of days on or after 1 July 2000} \times 11}{(10 \times \textit{total days in the period}) + \textit{days on or after 1 July 2000}}$$

You should include this amount at Item G1 of your Business Activity Statement.
You calculate the GST on this amount as:

$$\text{GST} = \frac{1}{11} \times \text{consideration for the taxable supply.}$$

Example

On 31 December 1999, Tracey enters into an agreement to supply James with membership of a gym for a year. At the time of entering the agreement, Tracey does not add GST. Instead, she decides to absorb the cost of the GST within the price of the membership. The price of the membership is $300. 184 days of the membership period are on or after 1 July 2000.

Tracey calculates the amount of GST payable on James' membership as follows:

Consideration for the taxable supply $= \frac{\$300 \times 184 \times 11}{(10 \times 366) + 184}$

$= \$157.96$

GST payable $= \frac{1}{11} \times \$157.96$

$= \$14.36$

Note: This calculation will not apply where you supply commercial residential premises that are predominantly for long-term accommodation (and are provided to an individual on that basis). They will also not apply where the supply is partly GST-free or input taxed. Supplies that are partly GST-free or input taxed are addressed separately in this fact sheet.

In which tax period/s is the GST attributable?

When GST is attributable on a periodic or progressive supply spanning 1 July 2000, the tax period is dependent on:

- when you send an invoice for the supply or receive consideration for the supply; and
- whether you account for GST on a cash or non cash basis.

Cash basis of accounting

Where you receive consideration for a taxable supply before 1 July 2000, you attribute the GST on this supply to your first tax period on or after 1 July 2000. If you receive the consideration on or after 1 July 2000, you attribute the GST to the tax period in which you receive the consideration.

Example

On 1 May 2000 Jane enters an agreement to lease John a building for a year. John pays the lease fee of $20,000 in full on this date. Jane decides to absorb the cost of the GST. The lease period commences on 10 May 2000. 314 days of the lease are on or after 1 July 2000. Jane calculates her GST liability as follows:

Consideration for the taxable supply $= \frac{\$20{,}000 \times 314 \times 11}{(10 \times 365) + 314}$

$= \$17{,}426.84$

GST payable $= \frac{1}{11} \times \$17{,}426.84$

$= \$1{,}584.26$ attributable to Jane's first tax period.

Non cash basis of accounting

Where you do not account on a cash basis and you invoice for a taxable supply before 1 July 2000, you attribute GST on this supply to your first tax period on or after 1 July 2000. Where you invoice on or after 1 July 2000, you attribute the GST to the earlier tax period in which:

- you receive any of the consideration for the supply; or
- you issue an invoice for the supply.

Example

Club Ltd accounts for GST on a non cash basis and lodges its BAS monthly. On 6 May 2000 it sends Kathleen an invoice for her yearly membership. Kathleen's membership fee of $200 is due on 20 May 2000 but she pays it on 1 September 2000. Club Ltd must account for the GST on Kathleen's membership in the first tax period after it sent the invoice (July 2000).

Payments by instalments

Where you provide a supply over a period and you receive the consideration progressively or periodically (i.e., in instalments) you attribute the GST for each instalment to the earlier tax period in which:

- you receive any of the consideration for that instalment; or
- you issue an invoice for that instalment.

Example

On 1 December 1999 Bill enters into an annual agreement to clean the university grounds. The agreement commences immediately. Although the amount of cleaning varies depending on the time of year, the supply is taken to be made uniformly.

Bill's fee is $500 per quarter plus GST. The first quarter ends on 29 February 2000, and on this date he issues his first invoice which states that his client has twenty-eight days to pay the account.

Bill calculates his liability for GST on the supply as:

$2,000 x 153/366 x 10% = $83.61

The total price under the contract is $2,083.61

Bill remits GST on a monthly basis. His invoices and the dates when GST is payable are shown below.

Date of invoice	**Date paid**	**Fee net of GST** $	**GST** $	**Date when GST is payable using non-cash basis**	**Date when GST is payable using cash basis**	**Total Fee** $
29 Feb 2000	30 Apr 2000	500.00	Nil	Not applicable	Not applicable	500.00
31 May 2000	20 Jul 2000	500.00	Nil	Not applicable	Not applicable	500.00
31 Aug 2000	25 Oct 2000	500.00	33.88	21 Sep 2000	21 Nov 2000	533.88
30 Nov 2000	2 Feb 2001	500.00	49.73	21 Dec 2000	21 Mar 2001	549.73

***Example**:*

On 20 May 2000 Bill enters into an agreement to lease equipment from Jack for 12 weeks (42 days before 1 July 2000, and 42 days on or after that date). The agreement commences immediately. Bill is required under the agreement to pay $210 per fortnight. He makes all his repayments on the due date. The total fee for the period is $1,260 which includes GST. Jack accounts for GST on a cash basis and remits GST monthly.

We calculate the amount of consideration which relates to the period on or after 1 July 2000 (consideration for the taxable supply) as:

$$= \frac{\$1{,}260 \times 42 \times 11}{(10 \times 84) + 42}$$

$$= \$660$$

GST payable on the taxable supply $= 1/11 \times \$660$

$$= \$60$$

As the supply (the lease) is regarded as having been made continuously and uniformly over the period, the value of the supply before 1 July 2000 is $600 ($1,260 less $600). In this instance, Jack has received $630 before 1 July 2000, but the value for the supply is only $600. Jack must treat the $30 excess as being consideration for the period on or after 1 July 2000 and must account for this amount in his first tax period. The dates when GST is payable are shown below:

Period	Amount	GST payable (1/11 x price)	Date when GST is payable
Amount paid prior to 1 July 2000 for supply made after that date.	$ 30.00	$ 2.73	21 Aug 2000
1 July 2000 to 14 July 2000	$210.00	$19.09	21 Aug 2000
15 July 2000 to 28 July 2000	$210.00	$19.09	21 Aug 2000
29 July 2000 to 11 August 2000	$210.00	$19.09	21 Sep 2000

How do you calculate the input tax credit on a periodic or progressive supply?

You use the same rules and formulae for determining the amount of input tax credit.

Example

Trevor takes out an insurance policy for $1,560* that covers his business assets. The policy provides cover for 222 days before 1 July 2000 and 144 days after 30 June 2000. Trevor's business only makes taxable supplies. He works out his entitlement to an input tax credit as follows.

Consideration for the taxable supply $= \frac{\$1{,}560 \times 11 \times 144}{(10 \times 366) + 144} = \$649.59$

Therefore, Trevor's input tax credit is $59.05 (1/11 of $649.59).

If the policy also covers Trevor's private assets his input tax credit is reduced accordingly. For example, if Trevor acquired the policy only 60% for a creditable purpose his credit is reduced to $35.43.

*When calculating the consideration for the taxable supply of an insurance policy stamp duty is excluded from the price of the supply by section 78-5 of the *A New Tax System (Goods and Services Tax) Act 1999*.

How GST is calculated where the supply is GST-free for a period on or after 1 July 2000.

Where the supply is GST-free until 1 July 2005 you calculate the amount of the consideration which relates to the period on or after 1 July 2000 (consideration for the taxable supply) as:

$$\frac{\textit{Price} \times \textit{days after the GST-free period} \times 11}{(10 \times \textit{total days in the period}) + \textit{days after the GST-free period}}$$

Example

On 1 July 1999 Joe Pty Ltd entered a written agreement to provide Anne with an optional warranty. The price of the optional warranty was $700. The GST was absorbed within the price. The warranty period commenced on 1 December 1999 and is for a seven year period. The supply is GST-free until 1 July 2005, as Anne is entitled to a full input tax credit for the optional warranty. The consideration for the taxable supply is:

Consideration for the taxable supply $= \frac{\$700 \times 519 \times 11}{(10 \times 2{,}557) + 519}$

$= \$153.18$

GST $= 1/11 \times \$153.18$

$= \$13.93$

Where the supply is GST-free until a review opportunity arises, and as a result of that review opportunity, the consideration changes, you calculate the consideration for the taxable supply as:

$$\frac{\textit{Price x days after the GST-free period x 11}}{\textit{(10 x total days in the period) + days after the GST-free period}} + \textit{change in consideration}$$

Example
On 20 December 1998 Jamie enters into a written agreement to lease a building to Don for a five year period for $5,000. The lease period commences immediately. The agreement contains an agreement to review the price on 31 December 2001. The price is reviewed and increased by $600. The consideration for the taxable supply is:

Consideration for the taxable supply $= \frac{\$5{,}000 \times 719 \times 11}{(10 \times 1{,}826) + 719} + \$600$

$= \$2{,}683.62$

GST $= 1/11 \times \$2{,}683.62$
$= \$243.97$

How GST is calculated when part of the supply is GST-free or input taxed.

Where you make a supply for a period spanning 1 July 2000 which is partly GST-free or input taxed, you calculate the GST using the following formula:

$$\textit{Consideration excluding GST} \times \frac{\textit{days on or after 1 July 2000}}{\textit{total days in the period}} \times 10\% \times \textit{\% of supply subject to GST}$$

The consideration for the taxable supply is the GST multiplied by eleven.

Example
On 1 December 1999 Tony leases Julie a building for a year for $10,000 (not including GST). The upper floor of the building contains Julie's residence. On the lower floor Julie operates her antique business. 60% of the lease is in respect of the antique business. Tony calculates the GST as:

$= \$10{,}000 \times \frac{154}{366} \times 10\% \times \frac{60}{100}$

$= \$252.46$

The price of the supply is $10,252.46

The consideration for the taxable supply $= \$252.46 \times 11$
$= \$2{,}777.06$

Where the supply is partly GST-free or input-taxed, and you have not taken GST into account in the price, you calculate the consideration for the taxable supply as:

$$\frac{\textit{Price x days on or after 1 July 2000 x 11}}{\textit{(10 x total days in the period) + days on or after 1 July 2000}} \times \textit{\% of supply subject to GST}$$

Example

If, in the previous example, Tony decides to absorb the GST (ie., the price is $10,000) he would calculate the consideration for the taxable supply as:

$$= \frac{\$10{,}000 \times 154 \times 11}{(10 \times 366) + 154} \times \frac{60}{100}$$

$$= \$2{,}664.91$$

$$\text{GST} = 1/11 \times \$2{,}664.92$$

$$= \$242.27$$

Do you need more information?

If you need more information about how to calculate and pay GST on a progressive or periodic supply that spans 1 July 2000, please contact the Tax Office:

- by **phone** on the **Business Tax Reform Infoline** on **13 24 78** - you can ring this number from anywhere in Australia for the cost of a local call;
- **in person** by visiting the enquiry counter at certain Tax Offices – Tax Office addresses are listed in *TaxPack*, and in your White Pages telephone directory;
- by ***A Fax from Tax***, our 24 hour fax information service – simply call **13 28 60** (local call cost) on your phone or fax and follow the voice prompts; or
- at our Internet site, **ATO*assist*** www.ato.gov.au

Produced by the GST Rulings Unit of the Australian Taxation Office

ATO References: