


GSTD 2000/2 - Goods and services tax: Can you claim input tax credits under Subdivision 66-A of the A New Tax System (Goods and Services Tax) Act 1999 for goods that have been incorporated into second-hand goods prior to 1 July 2000?

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 This document has changed over time. This is a consolidated version of the ruling which was published on *21 June 2000*

Goods and Services Tax Determination

Goods and Services Tax: Can you claim input tax credits under Subdivision 66-A of the *A New Tax System (Goods and Services Tax) Act 1999* for goods that have been incorporated into second-hand goods prior to 1 July 2000?

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.

Date of Effect

*This Ruling applies on and from 8 July 1999 (the date of Royal Assent to the *A New Tax System (Goods and Services Tax) Act 1999* and may be relied on immediately.*

1. Yes, you are allowed to claim input tax credits for second-hand goods you hold at the start of 1 July 2000 for the purposes of sale or exchange (but not manufacture) in the ordinary course of business, subject to certain requirements explained in paragraph 3.
2. From the start of 1 July 2000 Subdivision 66-A of the *A New Tax System (Goods and Services Tax) Act 1999* (GST Act) allows you to claim input tax credits for second-hand goods that are acquired *from* 1 July 2000 for the purposes of sale or exchange (but not manufacture) in the ordinary course of business, subject to the exclusions outlined in subsection 66-5(2).

3. Section 18 of the *A New Tax System (Goods and Services Tax Transition) Act 1999* (Transition Act) extends the operation of Subdivision 66-A to allow an input tax credit for second-hand goods you acquire *before* 1 July 2000 that you hold on 1 July 2000 for the purposes of sale or exchange (but not manufacture) in the ordinary course of business which would otherwise be excluded by subsection 66-5(2) of the GST Act. However, this section will not apply to second-hand goods which you have held for any other purpose, or in respect of which you are entitled to a special credit under section 16 of the Transition Act.

4. The term second-hand goods means those goods that are previously used or not new (see Goods and Services Tax Ruling GSTR 2000/8 at paragraphs 57-69). Where new goods are incorporated into second-hand goods they are no longer identifiable in themselves. They form part of, or are subsumed into, the second-hand goods.

5. The input tax credit available to you under Subdivision 66-A will include goods (either new or second-hand) you have incorporated into the second-hand goods (other than imported second-hand goods where you are entitled to the special credit under section 16 of the Transition Act) where:

- you acquired the second-hand goods prior to 1 July 2000; and
- you incorporated goods (either new or second-hand) into the second-hand goods prior to 1 July 2000; and
- you held the second-hand goods (with the goods incorporated) on 1 July 2000 for the purposes of sale or exchange (but not manufacture) in the ordinary course of your business; and
- the second-hand goods have not been previously held for any other purpose by you.

6. The consideration provided, or required to be provided, for the acquisition of the second-hand goods and the goods (either new or second-hand) incorporated into the second-hand goods will be the invoiced cost of those goods to you. Consideration for the goods (either new or second-hand) incorporated will include any associated related external costs for the acquisition of those goods (for example, the invoiced labour cost of installation of a gearbox into a second-hand vehicle).

7. The consideration for the second-hand goods held at the start of 1 July 2000 will be the sum of the consideration for the acquisition of the second-hand goods and the consideration for the goods (either new or second-hand) incorporated.

8. Where the requirements of Subdivision 66-A are satisfied the input tax credit is calculated as follows:

- If the consideration is more than \$300 the input tax credit is equal to the lesser of:
 - 1/11th of the consideration provided, or liable to be provided, for the acquisition; or
 - the amount of the GST payable on the subsequent supply of the second-hand good.
- If the consideration is \$300 or less the input tax credit is equal to:
 - 1/11th of the consideration provided, or liable to be provided, for the acquisition.

Attribution of the input tax credit

9. If you are entitled to an input tax credit for an acquisition of second-hand goods because of section 18 of the Transition Act, the input tax credit will be available on the combined consideration for the acquisition of both the second-hand goods and the goods (either new or second-hand) that have been incorporated prior to 1 July 2000 into the second-hand goods.

Combined consideration for acquisitions was \$300 or less

10. Where the combined consideration for the acquisitions was \$300 or less the input tax credit is treated as though it were an input tax credit attributable to any one tax period of your choice.

Combined consideration is more than \$300 and you account on a cash basis

11. Where the combined consideration for the acquisitions was more than \$300 and you account on a cash basis, then the input tax credit is attributable to:

- if, in a tax period, all the consideration is received for the subsequent taxable supply – that tax period; or
- if, in a tax period, part of the consideration is received – that tax period, but only to the extent that the consideration is received in that tax period; or
- if, in a tax period, none of the consideration is received – none to that tax period.

Combined consideration is more than \$300 and you do not account on a cash basis

12. Where the combined consideration for the acquisitions was more than \$300 and you do not account on a cash basis, then the input tax credit is attributable to:

- the tax period in which any consideration is received for the subsequent taxable supply of the goods; or
- if, before any of the consideration is received you have issued an invoice relating to the supply – the tax period in which the invoice is issued.

Example 1

A machinery and spare parts dealer acquires a second-hand tractor for \$10,000 on 12 April 2000. The only improvements made to the tractor prior to 1 July 2000 are the addition of 2 tyres. The tyres had been held in stock and cost \$1,000. At the start of 1 July 2000 the second-hand tractor is held for the purpose of sale, and is sold in August 2000 for \$18,000 GST inclusive.

The amount of input tax credit is:

$$\begin{aligned} 1/11^{\text{th}} \times (\$10,000 + \$1,000) &= 1/11^{\text{th}} \times \$11,000 \\ &= \$1,000 \end{aligned}$$

Example 2

A motor vehicle dealer acquires a second-hand vehicle for \$15,000 on 1 March 2000. A reconditioned gearbox is installed by a gearbox specialist at a invoiced cost of \$1,500 on 25 May 2000. At the start of 1 July 2000 the second-hand vehicle is held for the purpose of sale. The second-hand vehicle is sold in September 2000 for \$20,000 GST inclusive.

The amount of the input tax credit is:

$$\begin{aligned} 1/11^{\text{th}} \times (\$15,000 + \$1,500) &= 1/11^{\text{th}} \times \$16,500 \\ &= \$1,500 \end{aligned}$$

Example 3

Same facts as Example 2. The second-hand vehicle is sold in September 2000 for \$15,400 GST inclusive (GST \$1,400)

The amount of the input tax credit is \$1,400, being the lesser of:

a) $1/11^{\text{th}}$ of consideration for the acquisition:

$$\begin{aligned} 1/11^{\text{th}} \times (\$15,000 + \$1,500) &= 1/11^{\text{th}} \times \$16,500 \\ &= \$1,500 \end{aligned}$$

b) GST payable on the supply of the second-hand good:

$$1/11^{\text{th}} \times \$15,400 = \$1,400$$

Example 4

A laser printer cartridge recycler acquires 100 used cartridges on 19 April 2000 for \$5 each (\$500 total). The cartridges are reconditioned with the installation of new parts and insertion of new toner ink prior to 1 July 2000 at an invoiced cost of \$6 each (\$600 total). The reconditioned cartridges are held for sale at the start of 1 July 2000, and are sold during July 2000 at \$22 each GST inclusive.

The amount of the input tax credit is:

$$\begin{aligned} 1/11^{\text{th}} \times (\$500 + \$600) &= 1/11^{\text{th}} \times \$1,100 \\ &= \$100 \end{aligned}$$

Commissioner of Taxation

21 June 2000

Previous Draft:

Not previously issued in draft form

Related Rulings/Determinations:

GSTR 2000/8

Subject references:

- goods held for sale or exchange
- goods imported
- goods on hand
- input tax credit

- sale or exchange
- second-hand goods
- special credit

Legislative references:

- ANTS(GST)A99 195-1
- ANTS(GST)A99 16
- ANTS(GST)A99 18
- ANTS(GST)A99 66-5(2)
- ANTS(GST)A99 Subdiv.66-A

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