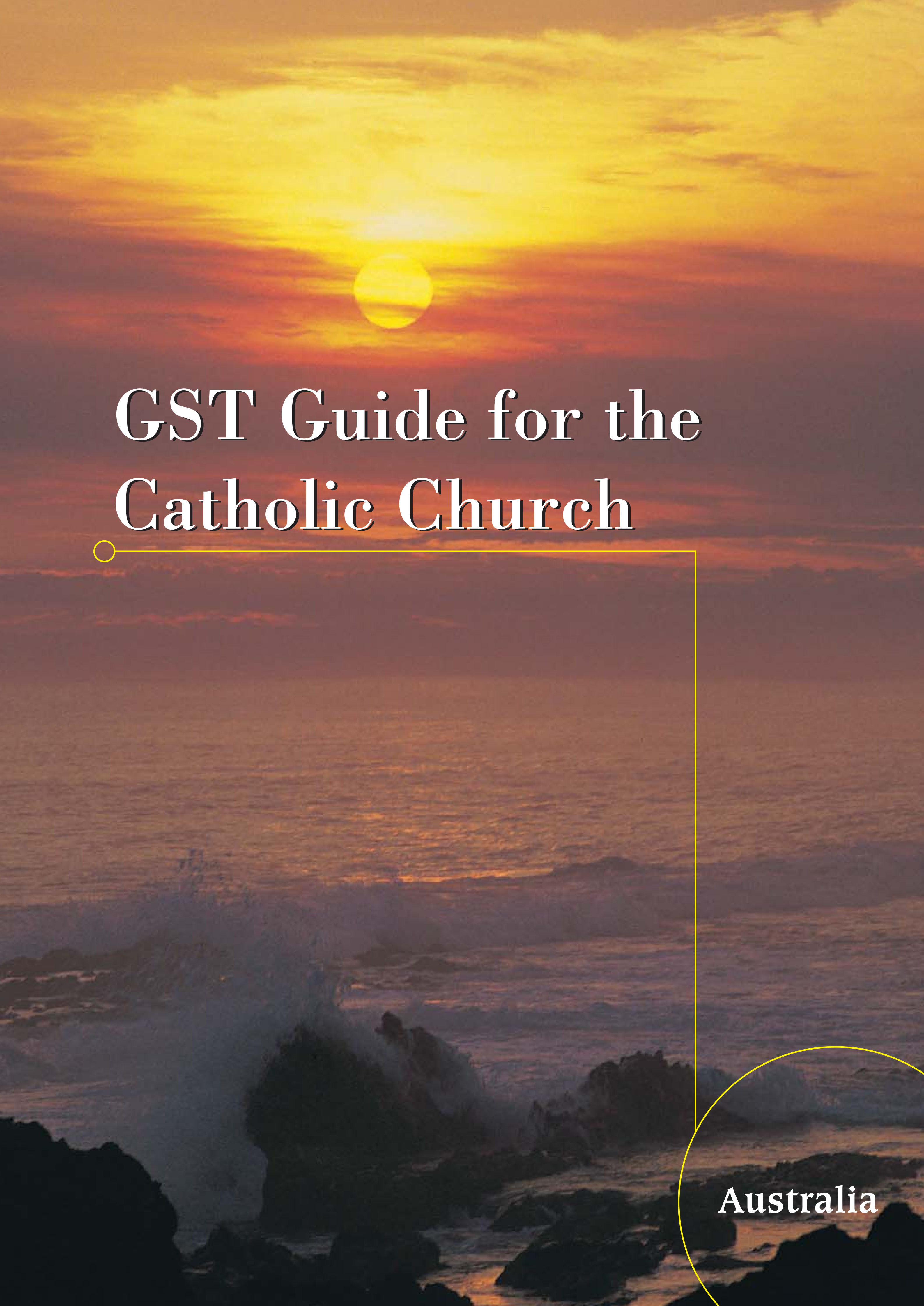
GST Guide for the Catholic Church



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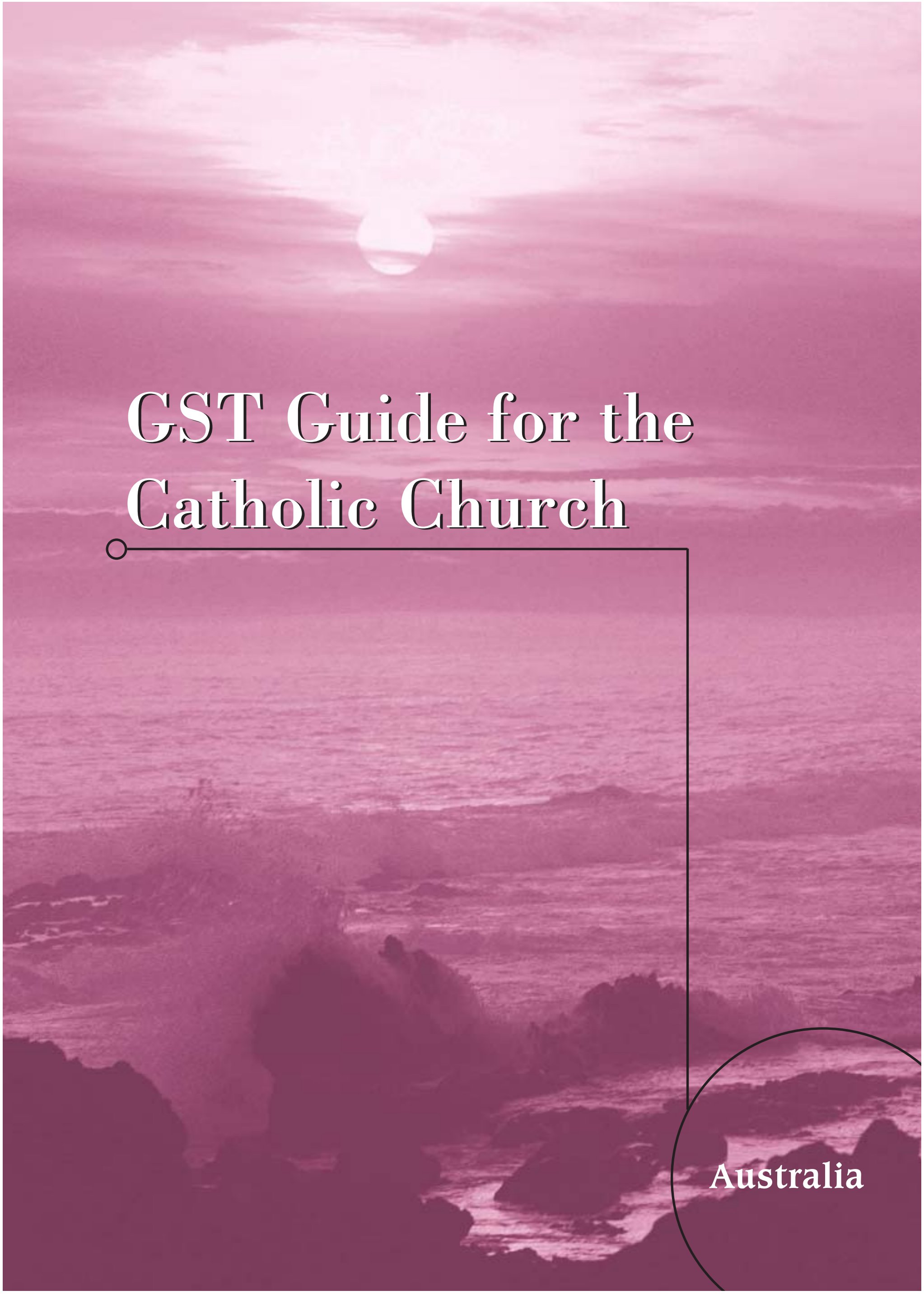
GST Guide for the
Catholic Church
Australia

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Important information concerning this material - please read

This material is provided under the Commonwealth's GST Start-up Assistance Program, and is designed to provide general information on the GST and on business skills, practices and processes necessary to operate with the GST, focussed on small and medium enterprises and the community and education sectors. Because business circumstances can vary greatly, the material is not designed to provide specific GST or business advice for particular circumstances. Also, because aspects of the GST are complex and detailed, the material is not designed to comprehensively cover all aspects of the GST as it applies to small and medium enterprises and the community and education sectors. Further, the laws implementing GST, and rulings and decisions under those laws, may change.

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INTRODUCTION

General Issues

For a considerable period, the Catholic Church and Religious Orders in Australia have been largely exempted from taxes in lieu of the not-for-profit service they have provided to society. Whilst this principle of exemption from taxation has been maintained in The New Tax System to operate from 1 July 2000, the Catholic Church, Religious Orders and their various operating entities will be drawn into the taxation system for the first time through a process of registration and endorsement of their individual taxation status.

The centerpiece of The New Tax System is a goods and services tax (GST) that will apply to a wide range of goods and services. Not all goods and services will be subject to GST. However, there are no exemptions available to individuals or other entities (religious, charitable, not-for-profit or commercial). Given these features of The New Tax System, all aspects of the operations of entities of the Catholic Church and Religious Orders may be subject to the provisions of the GST.

Depending on decisions made by individual entities of the Catholic Church and Religious Orders regarding registration connected with The New Tax System, many entities will take on particular periodic reporting responsibilities to the Australian Taxation Office (ATO) for the first time.

This consequence of The New Tax System means that entities within the Catholic Church and Religious Orders will face a number of challenges. These include the following:

(1) The assimilation of new concepts associated with the manner in which the detail of their operations are described.

(2) The cash flows of individual entities will be impacted by the GST and the removal of Wholesale Sales Tax.

(3) Individual entities will need to arrange their affairs to accurately record the collection and payment of the GST to facilitate the completion of periodic reporting to the ATO.

(4) Individual entities will need to become aware of the specific requirement of the legislation as regards GST invoices and other matters such as withholding of tax which will have an important bearing on periodic reporting to the ATO. In this context, entities will need to pay particular attention to the training of staff and the upgrading of record keeping systems.

(5) Individual entities may need to upgrade the responsiveness of their reporting systems so that periodic reporting to the ATO is timely, accurate and capable of passing audit by the ATO. In the past, financial reporting in a commercially orientated time-frame was often a matter of relatively low priority.

Against the background of these challenges, this reference resource has been prepared. The resource concentrates on those issues connected with The New Tax System that are of particular concern to entities connected with the Catholic Church and Religious Orders.

It is important to note that by virtue of the structure of the Church in Australia, and the fact that the existing structure has developed over a long period without contact with the taxation system, it will be impossible for every situation connected with The New Tax System and the Church to be canvassed.

Individual entities are encouraged to develop appropriate working relationships with Diocesan or Religious Order co-ordinators in developing management techniques to adapt to the new operating environment precipitated by the legislative requirement of The New Tax System.

Contents

1. Objective of the Material

The introduction of The New Tax System including the GST has required the Catholic Church in Australia to address the issue of taxation. Previously, the Catholic Church only had to deal with some of these issues listed below:

- Tax deductibility status;
- Sales tax exempt status;
- Fringe benefits tax for employees; and
- Income tax for employees.

From 1 July, all Catholic Church entities will be required to pay a business tax related to that entity's economic activity and to produce additional financial statements on a regular basis.

This information therefore, aims to provide a comprehensive and straightforward approach for parish/congregational personnel to deal with the key issues of tax reform and its implementation within parish/congregational financial structures with minimal input from specialist advisers.

Notes

2. The New Tax System

2.1 The Introduction of Goods and Services Tax

All Australians will be involved with a new tax system from 1 July 2000. An important part of The New Tax System will be a goods and services tax (GST).

GST is a broad-based tax of 10% on the supply of most goods and services consumed in Australia. It may affect some transactions entered prior to that date where performance occurs on or after 1 July 2000, for example insurance premiums.

The GST will be a visible tax. When goods and services which are subject to the 10% GST are purchased, it will be mandatory for the supplier to indicate that the price being paid is GST inclusive. This is unlike many of the existing taxes, such as wholesale sales tax, where tax may be included in the price of the goods, but which is not clearly visible to the purchaser.

Many existing, hidden, indirect taxes will be phased out and replaced by the GST.

2.2 Personal Income Tax Cuts

Parishes and congregations employing staff will need to be aware of the changes to personal income tax rates.

2.3 Pay As You Go (PAYG)

The New Tax System will consolidate a number of tax collection systems, such as Pay As You Earn (PAYE), Prescribed Payments System (PPS), Reportable Payments System (RPS) and the Provisional Tax system, with the PAYG system.

2.4 Fringe Benefits Tax Changes (FBT)

At the time this document was prepared changes to FBT were still being finalised. Consult with your Diocesan or Religious Order administration to keep yourself informed of any updates.

The following table shows the new personal income tax thresholds and revised income tax rates from 1 July 2000.

<table>
<tr><th colspan="2">TODAY'S TAX RATES</th><th colspan="2">NEW TAX RATES</th></tr>
<tr><th>Current Scale
Taxable Income</th><th>Tax Rate
%</th><th>New Scale
Taxable Income</th><th>Tax Rate
%</th></tr>
<tr><td>$0 - $5,400</td><td>0.00</td><td>$0 - 6,000</td><td>0.00</td></tr>
<tr><td>$5,401 - $20,700</td><td>20.00</td><td>$6,001 - $20,000</td><td>17.00</td></tr>
<tr><td>$20,701 - $38,000</td><td>34.00</td><td rowspan="2">$20,001 - $50,000</td><td rowspan="2">30.00</td></tr>
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<tr><td rowspan="2">$50,001 +</td><td rowspan="2">47.00</td><td>$50,000 - $60,000</td><td>42.00</td></tr>
<tr><td>$60,001 +</td><td>47.00</td></tr>
</table>

Notes

3. Assistance Available for Change to GST

3.1 Government Assistance

3.1.1 GST Start-Up Assistance Office

The Government has set aside $500 million to assist small and medium enterprises, the community sector and educational bodies (SMECEs) to adjust to the GST environment.

The GST Start-Up Assistance Office was established to administer these funds in consultation with The New Tax System Advisory Board and two advisory panels; one covering small and medium businesses and the other the community sector and educational bodies.

What kind of assistance is available?
The GST Start-Up Assistance Office has developed four programmes to help SMECEs adjust their business practices, namely:

Organisation-Delivered Assistance
Selected industry and professional organisations will provide a broad range of education and information services to their members and non-members.

Business Skills Education
The GST and Business Skills - an Action Guide is available now to help you become GST-ready. The GST Business Assist Helpline (13 30 88) is open from 9am - 9pm nationally to provide help on the necessary skills, practises and processes to prepare you for the GST.

Adviser Education
An education programme for informal advisers who assist small business, community groups and educational bodies.

Direct Assistance
Direct assistance will also be available to small and medium businesses and community organisations that register for GST. Redeemable certificates that can be exchanged for products or services acquired to assist in the implementation of the GST will be available.

These four programmes have the common goal of ensuring that SMECEs have the opportunity to access information and assistance to adjust their enterprises to the GST environment.

3.1.2. Australian Taxation Office (ATO)

The ATO has the role of providing guidance and assistance with technical changes that will arise from the introduction of The New Tax System.

The assistance provided by the ATO includes a range of publications from general purpose guides, to industry sector publications directed at the specific issues to be addressed by various industries and community groups.

The ATO is also providing a wide range of seminars to assist with the introduction and implementation of the changes.

3.1.3 New Tax System Advisory Board

To ensure the successful introduction of The New Tax System the Government has put in place a large number of programmes to assist businesses, community groups, the educational sector, and the Australian public prepare for the changes arising from The New Tax System.

To oversee the changes the Government has established The New Tax System Advisory Board. This “Board” has as one of its most important roles, the oversight of a major education programme about The New Tax System for all sectors of Australian society to assist them with preparations for the changes that will be necessary.

3.2 Australian Catholic Church Tax Working Group

The Australian Catholic Church Tax Working Group (ACCTWG) was formed to facilitate a national coordinated approach to deal with tax reform issues as a result of The New Tax System. There had been a number of local meetings at diocesan level between heads of department and tax experts, followed later by national meetings. The first national meeting was held on 11 January 1999. Soon after, a submission was made to the Australian Catholic Bishop Conference (ACBC) & Australian Conference of Leaders of Religious Institutes (ACLRI) for the formation of a national tax working group. The ACCTWG was formed in March 1999. The main aim of the group is to:

- Provide a point of reference and liaison with Tax and Treasury officials;
- Assist Dioceses, Religious Orders and Agencies to define and describe common issues in dealing with tax reform, in particular with GST;
- To assist in the development of strategy and policy in response to tax reform; and
- Address issues concerning GST start up and implementation around Australia.

The ACCTWG has also been actively involved in meeting with and lobbying, both government and ATO officials in matters concerning interpretation and refinement of tax legislation.

3.3 Other Government Organisations

3.1.3 Australian Competition & Consumer Commission (ACCC)

The ACCC has specific legal powers to ensure that there is no price exploitation in relation to price changes brought about by The New Tax System changes.

Tax Changes Covered by the Price Exploitation Guidelines

The ACCC will ensure that there is no price exploitation in respect of the following taxation changes:

- A reduction in the Wholesale Sales Tax (WST) rate of 32 percent to 22 percent (29 July 1999);
- Introduction of the GST (1 July 2000);
- Abolition of WST (1 July 2000);
- Changes to excise on petrol and diesel and to the Diesel Fuel Rebate Scheme (1 July 2000);
- Changes to excise on alcoholic beverages (1 July 2000);
- Changes to excise on cigarettes (from 1 November 1999);
- Introduction of a 'Luxury Car Tax' (1 July 2000);
- Abolition of bed taxes (1 July 2000); and
- Abolition of State taxes on bank transactions (Financial Institutions Duty 1 July 2001 Debits Tax by 1 July 2002) and stamp duties on marketable securities (1 July 2001) and remaining business stamp duties (date to be determined).

The ACCC's Focus in Evaluating Prices

It is the Government's intention that consumers should benefit fully from reductions in indirect tax and should not be exposed to greater than necessary tax related price rises. There should be no price exploitation of consumers.

In line with the Government's intention, the ACCC will examine how prices move in relation to The New Tax System changes. The ACCC's focus is on prices set by individual entities and is primarily on changes in prices resulting from the tax changes, not on the level of prices.

Price Exploitation Hotline on 1300 302 502.

Example

Prior to 30 June 2000, Vinnie's Boutique purchased a microwave oven for $100 (including WST). They typically added a 50% markup, and sold such items for $150.

With the introduction of GST and the abolition of WST, a like item would be purchased for say $88. Eg. The item would cost $80 and there would be $8 GST.

In a GST environment, the pricing pattern would become:

Full purchase price	88.00
Less: GST	8.00
Net cost	80.00
Normal dollar margin	50.00
New selling value	130.00
Add: GST	13.00
New selling price	143.00

3.4 Commonwealth Ombudsman

The Commonwealth Ombudsman investigates complaints about Commonwealth Government Departments and Agencies. S/he may also recommend that Departments and agencies provide a solution or remedy to complaints.

Individuals, businesses, clubs, groups, community organisations, Commonwealth grant recipients, charities and others may have a complaint about the actions or decisions of government agencies as The New Tax System is implemented. Where complaints cannot be resolved directly with the agency the matter can be raised with the Special Tax Adviser of the Commonwealth Ombudsman.

The Ombudsman's Office has wide powers to conduct an independent investigation of complaints. Call the National Complaints Line on 1 300 362 072.

Notes

4. Introduction and Overview

Introduction Date
GST starts on 1 July 2000; however, it may affect some transactions entered prior to that date where performance occurs on or after 1 July 2000.

Tax Rate
GST is a broad-based tax of 10% on the supply of most goods and services consumed in Australia.

Replacement Tax
GST is a visible tax. When goods and services which are subject to the 10% GST are purchased, it will be mandatory for the supplier to indicate that the price being paid is GST inclusive. Many existing, hidden, indirect taxes will be phased out and GST will replace them. (See Chapter 3.3.1 on the role of the ACCC for a listing of which taxes are being abolished.)

Although GST will replace some existing taxes, the GST charged to an enterprise by its suppliers, in many situations, will be recoverable from the ATO.

A Tax on Transactions - A Consumption Tax
What is a GST? The main principles are that it is a tax:

- Applied to the domestic Australian consumption of goods and services, **ie on transactions; and**
- It is paid by the final consumer.

The first key concept here is **domestic Australian consumption.** That means the GST does apply to imports, but does not apply to exports

As well, it is about the consumption of goods and services. So GST is a tax on goods and services and not on income. Therefore, an intention to make a profit is irrelevant in deciding whether an organisation must pay GST.

No Entities are Exempt from GST
It follows that many organisations that are not **currently** considered to be carrying on a 'business' for income tax purposes will nevertheless be included in the GST net. Such organisations (which the legislation calls entities) include church bodies, charities, trusts, co-operatives, sporting and other clubs, statutory bodies and local authorities.

Not all Goods/Services are Subject to GST
GST is not charged, or payable to the ATO, on GST-free supplies. The major categories of GST-free supplies are:

- Basic food
- Medical services
- Other health services
- Hospital treatment
- Residential care
- Community care
- Private health insurance
- Education services
- Child care
- Exports
- Religious services
- Farm land
- Supplies through inward duty free shops
- Supplies of precious metals
- Sales of going concerns (sale of 'businesses')

But not all supplies falling into these categories will be GST-free.

While these general categories of supply may be GST-free, each has a very specific meaning. Your supplies need to fall into those very specific definitions to be GST-free. Remember - if you make a mistake and don't charge GST because you thought the supply was GST-free, but it later turns out to be taxable, the GST liability rests with you not the consumer.

Be sure you carefully check the details if you make supplies that fall into these categories. You may want to seek advice on the impact of the GST-free rules for your particular entity from your Diocesan or Congregational contact, a professional adviser or the ATO.

If a an entity makes GST-free supplies however, it is still able to claim back GST input tax credits on the purchase of any goods and services acquired to allow it to make those GST-free supplies.

Example

A priest conducts a funeral service and receives a stipend. In this situation, the priest makes a GST-free supply. Though the priest is making a GST-free supply, he is still able to claim back the GST paid on the expenses of running the church such as telephone, electricity, insurance, candles, incense, and charcoal.

The GST is Recoverable

If an entity is registered for GST, the GST paid on acquisitions is recoverable from the ATO. For unregistered entities the GST is a cost because it cannot be recovered.

Church entities will need to balance the likely level of compliance costs against the cost of absorbing the GST paid on acquisitions when deciding whether or not to register for GST. This only applies for entities connected with the Church and Religious Orders with annual turnover less than $100,000.

5. GST Terms and Specific Meanings

To register for GST you must be an entity conducting an enterprise. So both of these terms - enterprise and entity - are central to the operation of the GST, and are critical in determining if you are required to register for GST. We look at these terms in turn.

5.1 Enterprise

Enterprise is about making things happen and getting things done.

Enterprise manifests itself in many ways. It may be parishioners grouping together to raise funds for the parish or it may be the parish providing a range of services for those in the community who are in need of special support and assistance. In a business context it may be a designer who has the courage to start her own business.

Enterprise involves planning, organising, and managing. Enterprise involves both formal and informal structures. Enterprise involves people doing things, making things happen, and providing things. Enterprise involves everything from the activities undertaken by Australia's largest companies, to the facilities provided to members by the local parish. Enterprise, enterprising people, and enterprises deliver the things that society needs and wants.

In the GST legislation, the term enterprise is used to describe an activity, or a series of activities, undertaken by a person or an organisation. Enterprise is a very important term in the context of GST because enterprises that meet certain criteria are required to register for GST.

It is important to realise that enterprises that are required to register for GST may not be 'businesses' or 'organisations' in the way those terms are normally perceived.

Enterprise includes:

▲ A business, trade or profession;

▲ A lease, licence or other grant of interest in property;

▲ Activities of charities or gift deductible entities;

▲ Activities of religious organisations; and

▲ Certain activities of government and government corporations.

Some activities are excluded from being an enterprise. These are:

▲ Hobbies or recreational activities;

▲ Activities by individuals or partnerships where there is no reasonable expectation of profit or gain. Input tax credits cannot be claimed for these activities; and

▲ Employees salaries and wages.

5.2 Entity

In the context of the GST an entity can include:

▲ An individual (eg a priest/deacon);

▲ A company or Body Corporate (eg a Religious Order/Congregation);

▲ A Corporation Sole;

▲ A Partnership;

▲ Any other Unincorporated Association or Body of Persons (e.g. kindergarten run by a parish); and

▲ A Trust or a Superannuation Fund.

5.3 Acquisition

Acquisitions include everything you buy for your enterprise including buying goods or services, getting advice or information, taking out a lease of premises, hiring business equipment, and anything else.

5.4 Adjustments

Adjustments are changes you may need to make on your BAS to change your net GST amount payable or refundable as the result of an adjustment event.

An adjustment event is any event that has the effect of:

▲ Cancelling a supply or acquisition;

▲ Changing the consideration for a supply or acquisition, or

▲ Causing a supply or acquisition to become, or stop being a taxable supply or creditable acquisition.

This may occur if:

- All or part of a supply or acquisition is cancelled;
- You receive or give a discount on a supply;
- You change the purpose of an acquisition; or
- One of your debtors fails to pay.

5.5 Attribution Rules

When, for any tax period, an entity completes the GST section of the BAS it is required to include:

- The total amount of taxable supplies made by the entity during the period; and
- The total amount of the taxable supplies it acquired during the period that relates to its taxable activity.

It follows that the entity must determine in which tax period a particular transaction must be accounted for. This need is covered by the attribution rules. They determine to which period a GST supply should be attributed.

The attribution rules differ depending whether the enterprise is GST registered on a 'cash basis' or an 'accrual basis'.

5.5.1 Cash Basis Attribution

Taxable supplies made by the entity
GST is attributed to the GST period in which the entity receives a payment in respect of the taxable supply.

Taxable supplies acquired by the entity
GST is attributed to the GST period in which the entity makes a payment in respect of the taxable supply.

5.5.2 Accrual Basis Attribution Rules

Taxable supplies made by the entity
GST is attributed to the first GST period in which the entity either, receives a payment in respect of the taxable supply, or issues an invoice in respect to that supply.

Taxable supplies acquired by the entity
GST is attributed to the GST period in which the entity receives a tax invoice in respect of the supply.

In effect, the attribution rules are the equivalent of GST time of supply rules. They determine the period in which the supply is to be regarded as occurring and in relation to which the applicable GST is to be accounted for.

Example:

A congregation is registered for GST on a cash basis. On 24 June it purchased soil from Jax Garden Yard Ltd for $3,300 (including $300 GST) for landscaping works at the convent.

Jax Garden Yard Ltd issued the congregation with a tax invoice for $3,300 on 25 June which it paid on 4 July. The congregation's GST tax period ends on 30 June.

It attributes the supply to the GST period commencing on 1 July, as it did not make the payment in the GST period ended 30 June.

Jax Garden Yard Ltd is registered for GST on an accrual basis. As it issued an invoice in the GST period ended 30 June, it must attribute the supply and the GST payment to the 30 June GST period.

5.6 Australian Business Number (ABN)

The ABN is critical to the operation of the GST system, as every entity that is registered for GST will have an ABN and this is the number that must be quoted on all your tax invoices.

As a general rule entities should register for an ABN even if they do not register for GST. If the entity does not have an ABN, or does not provide that number to people to whom it supplies goods and services, their clients ordinarily will be required to deduct withholding tax from payments to that business. There are very limited exceptions to the rule. This withholding tax will be at the rate of 48.5 cents in the dollar.

The ABN registration form includes the option to register for GST.

The New Tax System will change the way tax is collected in Australia from 1 July. As part of the changes The New Tax System also puts in place an ABN that will enable entities in Australia to deal with the ATO and a range of government departments or agencies using the one number.

If an entity does not obtain an ABN, and does not register for GST, it will be unable to claim back the GST that it pays to its suppliers.

An entity will also need to show its ABN on the tax invoices it issues. If it doesn't, the document will not constitute a tax invoice (even if so described) and its clients would not be able to claim input tax credits.

The ABN will not replace a tax file number, so tax file information will still be protected by the existing privacy guidelines.

When an entity has been allocated an ABN its relevant details will be placed on the Australian Business Register which the Commissioner of Taxation will administer.

5.7 Business Activity Statement (BAS)

Every entity that registers for GST will be required to submit a BAS that will show not just GST paid or due, but a range of other taxes as well. The BAS is your GST return - but it includes a lot more than just GST.

With the BAS, most parishes/congregations will make one payment and one statement to the ATO per quarter. That is, most entities will only be required to lodge four returns and make four payments per year. For parishes and congregations this will include:

- GST;
- Income tax withholding (PAYE/PAYG withholding); and
- FBT instalments.

For each tax period the entity will receive from the ATO a single tax form: the BAS.

As from July 1 the BAS will be used to advise the ATO of the GST liability of the entity as well as being used to advise its other tax liabilities. For most entities this means that there will only be one form to the ATO and only one payment each quarter. The exception will be for entities that choose to remit GST on a monthly basis.

A BAS will have to be filed when it is due, even if no tax liability exists for that tax period.

The BAS can be sent to the entity, by the ATO either through the mail as a paper form, or over the Internet as an electronic form. The entity will be required to lodge its BAS with the ATO twenty-one days after the end of the GST tax period. The GST tax period will either be one month or three months. (This will be discussed in Chapter 20)

The entity will be required to keep adequate records so it can accurately complete the GST section of the BAS to determine the amount of GST it will have to pay to the ATO or the amount that may be refunded, depending on its circumstances.

Any refunds of GST may be used to reduce other amounts of tax that may need to be paid (such as group tax) on the BAS for that period. The ATO will pay interest on all refunds not remitted by them within 14 days.

5.8 Consideration

For most entities, the consideration that they receive for their goods and services will be the money paid. However, the GST is intended to be very broad in its coverage, so consideration extends well beyond money to include non-cash transactions, such as barter transactions.

5.9 Creditable Acquisitions

Creditable acquisitions are acquisitions acquired for a creditable purpose. You acquire a thing for a creditable purpose if you acquire it for use in your business, unless it is for use in making input taxed supplies. Things acquired for private use are not creditable acquisitions.

5.10 Goods and Services

The GST is intentionally very broad in its coverage. It is intended to capture all forms of domestic consumption, so may include a range of things that you may not have thought of. It is important that you charge GST on all taxable supplies, so you need to have a good understanding of what we mean by goods and services.

If you don't charge GST when you should have, you as the supplier will still be required to pay 1/11th of the price charged to the ATO - so making a mistake can be very expensive!

Enterprises produce a huge range of goods and services that are available to consumers. Goods can be grown, made, or imported, and can be bought and sold repeatedly.

Services also come in many different forms. Services can involve a plumber fixing a blocked drain, or the local swimming club teaching the kids to swim. The local Council, Federal Government, and the local Citizens Advice Bureau all provide services. Some services we use are costly, some cost nothing, and some organisations provide them in return for subscriptions and members donations.

Some service organisations are huge, highly structured, and are 'big businesses' to run. Other service organisations are less formal, less organised, and small. One thing is common to all enterprises that provide goods and services, they involve people in planning, organising, and managing the supply of a huge range of goods and services that people consume every day.

It is very important to appreciate that for GST to be payable, there must be a taxable supply of goods and services.

In some cases the goods or services being supplied may be GST-free, or input taxed. These are not taxable supplies of goods and services and accordingly GST is not included in the price paid (we explain these terms later).

This material also looks at the supply of goods and services. It considers what is being supplied, when is it being supplied, what is the value of the supply. This material considers the relationships between enterprises, their clients, and the goods and services provided.

5.11 Input Tax Credit

Registered entities can claim back from the ATO the GST that is included in the price of goods and services they acquire for the purpose of making taxable supplies and GST-free supplies. These are called input tax credits.

It is critical that every registered entity is able to keep track of these credits. An unclaimed input tax credit is a cost to an organisation.

To be able to claim GST input tax credits, an entity must hold a valid tax invoice at the time the input tax credits are claimed in the BAS.

5.12 Sub-Entity

Charities and gift deductible entities with small independent branches (sub-entities) have the option of treating these units as if they are separate entities for GST purposes.

A sub-entity is considered to be independent if it keeps its own accounting records and can be separately identified by the nature of its activities or by its location.

Where a sub-entity's turnover is less than $100,000, it can choose whether to register for GST. If the sub-entity's turnover is $100,000 or more, it will have to register separately for GST.

The election to branch units of an organisation as sub-entities for GST purposes cannot be revoked for 12 months.

5.13 Supply

Supply is a broad term and includes selling goods and services, providing advice or information, and other transactions.

5.14 Tax Fraction

Rule of Thumb: The GST is 1/11th of the price charged or paid.

The tax fraction can be important:

- In isolating the GST content of a transaction; and
- Identifying the true 'income' and 'expenditure' of the entity.

Total price includes GST

When a parish/congregation enters into a transaction that is taxable, GST must be added to the value of the transaction.

Example

The parish bookshop is registered for GST and sells 10 statues to the parish school which is also registered for GST. The value of the supply is $250.00 and the bookshop adds 10% GST ($25) and charges the school a price of $275.00.

When the bookshop completes the GST portion of the BAS it will disclose the total of its taxable supplies for the tax period. It will calculate 1/11th (the tax fraction) of the total price charged to the school ($25). This will be included in the total GST reported to the ATO.

The remaining 10/11ths of the price ($250.00) is the gross income that bookshop receives from the transaction.

When the school completes the GST portion of the BAS it will disclose the total amount of its acquisitions. It will calculate 1/11th (the tax fraction) of the total price paid ($25). This will be included in the total GST claimed back from the ATO. The remaining 10/11ths ($250.00) is the actual acquisition cost of the item to the school.

5.15 Tax Invoice

A tax invoice is a document usually issued by the supplier. A tax invoice includes the information normally shown on an invoice plus additional information required by GST law, including:

- The ABN of the supplier;
- The value of the supply;
- The amount of GST; and
- The total price, including GST.

5.16 Tax Period

Tax periods are the reporting period for GST on your BAS. Tax periods are monthly or quarterly. A BAS must be lodged for each tax period.

5.17 Value

In a GST context, references to the value of something means the price of an item before GST is added. Thus, GST publications often make reference to adding GST to the value of the item to arrive at the 'GST inclusive price'. In the context of most GST taxable supplies, the use of the term value, means 10/11ths of the price. The final 1/11th is the GST component of the price.

Example

In the above example, the value of the statues sold by the parish bookshop to the school is $250. Likewise the value of the statues to the school is $250.

Notes

6. How the GST Operates

Broadly speaking in the case of GST registered entities:

- GST is a tax of 10% on consumption, i.e. most transactions; and
- Most entities will charge and collect the GST.
- Entities pay the GST on the acquisitions to their operations; and
- Claim a credit from the ATO for the GST paid on the items purchased or acquired to use in that entity.
- GST is levied on each taxable supply by registered entities; and
- The registered entity will report to the ATO the GST movements on a BAS.

Unlike sales tax there is no provision for exempt bodies such as Public Benevolent Institutions to provide exemption certificates to the vendor.

There are a number of detailed rules, which modify this basic position.

Notes

7. Impact on the Church

The key elements of the introduction of GST, as a component of the New Tax System, for a parish/congregational entity are:

1) GST is a tax on goods and services and not a tax on income. Therefore, it follows that parishes/congregations that are not currently considered to be carrying on a business for income tax purposes will nevertheless be included in the GST net.

2) No entity will be exempt from GST.

3) A parish/congregation may be required to register for GST.

3) A registered entity must include 10% GST in the price of 'taxable supplies'.

4) A parish/congregation will find that GST is included in the prices charged to it by its suppliers for many of the goods and services it purchases.

5) Parishes/congregations need to start preparing now to become accustomed to the system by:

- Providing education and training for all personnel involved in the implementation of GST;
- Recognising the importance of systems and record keeping required to account for the GST (addressed in Chapter 21);
- Recognising the impact GST will have on staff, particularly the additional responsibilities;
- Identifying the GST implications of all transactions;
- Identifying transitional issues;
- Review all contracts (obtain advice from the Diocesan or Congregational contact);
- Identifying risks that may arise as a consequence of GST;
- Recognising the importance of an appropriate Chart of Account; and
- Ensuring that the appropriate documentation is printed and available for use by staff from 1 July 2000.

7.1 Diocesan Parish Priests

GST does not apply to:

- First (or Second) Collection at Masses – as these are donations. Further, the supply of religious services are GST-free provided they are considered essential to the practice of the religion;
- Christmas & Easter dues; and
- Stole fees or stipends for masses, weddings, baptisms, funerals.

Diocesan Priests are able to and may have to register for an ABN because they conduct an enterprise:

- Being their vocation;
- Having an expectation of profit or gain; and
- Are not employees for PAYE (PAYG).

If registered for an ABN, diocesan priests may in some cases subsequently register for GST. This would allow them to claim input credits on creditable acquisitions such as:

- Theological library books;
- Clerical robes; and
- Car expenses (excluding private running).

It will be important for priests to maintain records and lodge BAS returns with the ATO.

However, diocesan priests cannot claim input credits on such things as:

- Holidays;
- Private car expenses;
- Newspapers and subscriptions for periodicals that are "non-theological"; and
- Personal clothing.

Subsequent registration for GST involves meeting all the legislative requirements eg. income level thresholds, etc. If, under the legislation, there is no requirement to register for GST, and if the claim on input credits are only minimal, it may be more beneficial not to register for GST.

It is important that diocesan priests consult the Diocesan Business Manager for advice and information on clergy registration issues.

7.2 Diocesan Assistant Priests, Specialist Priests, Deacons

May have to register for an ABN. Subsequently may register for GST to claim input credits but it may not be worthwhile to register for GST – see implications for Parish Priests.

- Stipend is not subject to GST; and
- GST free income – weddings, baptisms and funerals.

7.3 Diocesan Priest-Chaplains

Same as for specialist priests but if registered for GST:

- Grants received from governments are taxable for GST; and
- Can claim input credits for creditable acquisitions.

7.4 Religious Orders

- Offerings for religious services & donations are GST-free to the Order. This does not include stipends, which are payments made to the Religious Order/Congregation for a service;
- The Religious Order may claim input credits except for entertainment and purchases made from the personal allowance provided by the Order.

7.5 Parishes/Religious Order Enterprises – Income

GST applies to:

- Piety stall sales (refer to Chapter 15.4 Non-Profit Sub-Entities);
- Cake stalls (refer to Chapter 15.4 Non-Profit Sub-Entities);
- Sponsorships where a local entity makes a donation to the parish/congregation in return for a service such as advertising; and
- Rental of parish/congregational premises (eg parish hall, parish tennis courts, etc).

A practical illustration of the GST effect on a parish's income and expenditure is outlined below:

INCOME	GST STATUS	GST PAYABLE TO ATO
Second Collection Offering	Gift	No
Other Donations	Gift	No
Sale of Books, Religious Items	Taxable	Yes

EXPENDITURE	GST STATUS	GST INPUT CREDIT CLAIMED
Salaries	GST-free	No
Purchase of Books, Religious Items	Taxable	Yes
Insurances	Taxable	Yes
Repairs & Maintenance – Church	Taxable	Yes
Interest on Borrowings	Input Taxed (no GST)	No
Planned Giving Expenses	Taxable	Yes
Electricity	Taxable	Yes
Printing of Church Bulletin	Taxable	Yes

A practical illustration of the GST effect on a congregation's income and expenditure is outlined below:

INCOME	GST STATUS	GST PAYABLE TO ATO
Stipends	Taxable	Yes
Donations	Gift	No
Interest	Input Taxed	No

EXPENDITURE	GST STATUS	GST INPUT CREDIT CLAIMED
Insurance	Taxable	Yes
Repairs and Maintenance	Taxable	Yes
Motor Vehicle Expenses	Taxable	Yes

Note: If you are not registered for GST you cannot add GST to the price of goods and services you supply and you are not entitled to claim input tax credits for GST included in the price of your purchases.

7.7 Associated Church Entities

If registered for GST:

GST applies to:

- Government grants;
- Membership fees; and
- Sale of publications.

GST does not apply to:

- Donations; and
- Grants with no ultimate benefit to the grantor.

Input tax credits claimable on creditable acquisitions, for example:

- Insurance;
- Office costs;
- Office equipment; and
- Purchase of stocks for resale.

Notes

8. Supply Transactions

GST is a tax on transactions. For GST purposes sales transactions are called supplies.

As part of preparations for dealing with the GST a parish/congregation should identify the supplies it makes and the GST status of those supplies.

There are four kinds of supply which are described in the following pages. In summary they are:

Taxable Supplies

The supplier charges GST on sales they make and can claim full input tax credits for GST paid on purchases.

Taxable supplies made by an entity could include:

- Resale of purchased furniture, clothes etc
- Sale of a commercial building; and
- Ministry of an individual religious for which a stipend is paid.

Taxable supplies acquired by an entity could include:

- Purchase of computer equipment;
- Repairs to a motor vehicle used in ministry; and
- Services such as telephones, electricity and gas.

GST-free Supplies

The supplier does not charge GST on sales they make and can claim full input tax credits for GST paid on purchases.

GST-free supplies made by an entity could include:

- Sale of donated goods that retain their original character; and
- Providing a religious ceremony.

Input Taxed Supplies

The supplier does not charge GST on sales they make and cannot claim input tax credits for GST paid on purchases made to make those sales.

Input taxed supplies made by a business could include:

- Renting a house as a residence at full market rate.

To avoid any confusion later on, make a mental note now that input taxed supplies are not the same as input tax credits. Input taxed supplies have just been described. Input tax credits are the credits allowed for GST paid on expenses incurred to make taxable or GST-free supplies.

Other Supplies
(Supplies by Non-Registered Persons)

The supplier does not charge GST on sales they make and cannot claim input tax credits for GST paid on purchases.

8.1 Taxable Supplies

Entities that are registered for GST must charge GST on their taxable supplies, and will be entitled to input tax credits on the GST they have paid on purchases to make those supplies.

It is critical that every registered entity understands this. Failure to charge GST when it should have will result in a liability for GST of 1/11th of the price charged. Failure to track creditable acquisitions will result in an under claiming of input tax credits. That is real money down the drain!

Supplies of goods and services are made by entities to their clients. In broad terms supplies include all forms of supply of goods and services.

A taxable supply specifically excludes supplies that are GST-free, and supplies that are input taxed. Consequently GST is not charged on either GST-free supplies or input taxed supplies. (These terms will be considered shortly).

For the supply of goods or services to be a taxable supply, it must be connected with Australia. This means that, generally, anything done or made in Australia will be subject to GST. If you have transactions that relate to exports then the rules are more complex. You may need to seek advice from the ATO or a professional adviser.

To be a taxable supply the supply must involve consideration. In this context it is important to appreciate that a barter transaction, or an exchange of goods or services is a taxable supply, if one or both of the parties to the transaction is GST registered.

Finally it is important to appreciate the supply of goods or services is only a taxable supply if all of the above conditions apply, and the enterprise is, or should be, registered for GST.

GST at the rate of 10% is added to the value of taxable supplies (making it 1/11th of the total price).

Entities purchasing goods for resale must make allowance for GST charged on the acquisitions when establishing the sale price.

Consideration

For most entities, the consideration that they receive for their goods and services will be the money paid. However, the GST is intended to be very broad in its coverage, so consideration extends well beyond money to include barter transactions.

It is important to remember that where a supply is made for consideration, even if that is not for money, the GST must be accounted for in the usual way.

In broad terms consideration is something given or received in return for the goods and services that are purchased or sold by an entity. Barter transactions, for example, do not include money. In the case of barter transactions, goods may be supplied in return for other goods, or for services. In others words, in a barter transaction, value is both given and received. However it is important for entities to realize that a GST liability arising from barter transactions, may be payable in cash to the ATO if not offset by input tax credits.

Example

A local painter agreed to paint the parish hall in exchange for $550 worth of advertising in the parish newsletter. No cash is exchanged in this transaction. Despite this both the parish and the painter must issue a tax invoice.

The parish can claim a $50 input tax credit using the tax invoice issued by the painter. The painter has a GST liability of $50 to the ATO.

The painter can claim a $50 input tax credit using the tax invoice issued by the parish. The parish has a GST liability of $50 to the ATO.

8.2 GST-free Supplies

GST is not charged, or payable to the ATO, on GST-free supplies. The major categories of GST-free supplies are:

- Basic food
- Medical services
- Other health services
- Hospital treatment
- Residential care
- Community care
- Private health insurance
- Education services
- Child care
- Exports
- Religious services
- Farm land
- Supplies through inward duty free shops
- Supplies of precious metals
- Sales of going concerns (sale of businesses)

But not all supplies falling into these categories will be GST free.

While these general categories of supply may be GST-free, each has a very specific meaning. Supplies need to fall into those very specific definitions to be GST-free. Remember - if a mistake is made and GST is not charged on a taxable supply, the GST liability rests with the entity not the client.

Be sure you carefully check if you make supplies that fall into these categories. You may want to seek advice on the impact of the GST-free rules for your particular entity from your Diocesan or Congregational contact, professional adviser or the ATO.

If an entity makes GST-free supplies however, it is still able to claim back GST input tax credits on the purchase of any goods and services acquired to allow it to make those GST-free supplies.

8.3 Input Taxed Supplies

The major categories of input taxed supplies are:

- ▲ Residential rents where the rent charged is at market rates. Where the rent charged is less than the threshold (at the time of printing, the threshold is 75% of the market rent or the cost of the accommodation), the supply will be a GST-free supply.

  NOTE that if a supply is GST-free, this overrides the fact that it would have been an input taxed supply; and

- ▲ Financial services.

Most organizations won't make input taxed supplies, although some will be providing residential accommodation.

An entity cannot charge GST on any input taxed supplies it makes, and cannot claim back any GST on acquisitions made in relation to those supplies.

If an entity supplies input taxed supplies in addition to taxable supplies and/or GST-free supplies, input tax credits must be apportioned. This apportionment is required as no input tax credit is available for the GST paid on acquisitions used in making input taxed supplies. If your entity makes input taxed supplies and input tax credits need to be apportioned, seek advise from your Diocesan or Congregational contact, a professional advisor or the ATO.

Example

A large religious organisation owns several residential properties which it rents out at market rentals to raise funds. As the landlord, it is making input taxed supplies.

Because the landlord is providing an input taxed supply, it is unable to claim back any GST that may be included in the costs incurred in relation to those properties. This would include the price of repairs to the property, rates, or insurance. This is illustrated below.

Residential rent received by organisation	$10,000
Plus: GST	n/a
Total rent received	$10,000
Less: Landlord's costs	
Repairs (including GST)	$1,100
Insurance (including GST)	$550
Total costs	$1,650
Surplus	$8,350

The $1650 costs include $150 GST (being 1/11th of $1650). The landlord cannot recover the $150 GST as an input tax credit. This is because the residential rent is treated as input taxed. The $150 is therefore an added cost to the organisation.

Note – the renting of commercial property is a taxable supply. Therefore, if the religious organisation owned and rented commercial property they would charge GST on the rent and could claim any GST included in the costs incurred in relation to those properties.

8.4 Other Supplies

Supplies by Non-Registered Persons:

- ▲ No GST on supplies they make; and
- ▲ May not claim input taxed credits.

Wages and salaries paid to employees and superannuation contributions paid on behalf of employees are not subject to GST.

It is important to determine the status of suppliers. The legislation requires that registered entities (either ABN only or GST) withhold 48.5% of any amounts greater than $50 paid to a supplier who does not have an ABN.

Notes

9. Church Transactions

9.1 Religious Services

The supply of religious services by a religious institution or entity will be GST-free if the services are:

Integral to the Practice of the Religion

This includes:

- Religious celebrations such as mass, funerals, marriages and baptisms;
- Chaplaincy services, religious conferences and seminars; and
- Theological training, adult faith education, after school catechism.

"Religious Service" is not confined to a service inside a church.

The ATO has also ruled that the following services would, generally, be religious services and thus GST-free:

- Home church group activities;
- Bible study groups;
- Sunday school;
- Chaplaincy services;
- Religious conferences & seminars;
- Theological training; and
- Leadership training activities (subject to them being considered essential to the practice of the Catholic religion).

Not Considered to be Integral to the Practice of Religion:

- Car hire and purchase of flowers for a church wedding;
- Religious items
  – a bible for private devotion;
- Youth camp
  – if mainly social/ recreational; and
- Friendship clubs.

9.2 Charities

A charity is an organisation that undertakes charitable activities. Activities are charitable if they benefit the community or section of the community through:

- The relief of poverty or sickness or the needs of the aged;
- The advancement of education;
- The advancement of religion; or
- Other purposes beneficial to the community.

Religious charities include:

- Churches;
- Seminaries;
- Religious orders;
- Organisations for maintaining clergy/ religious; and
- Organisations for spreading religious doctrine and practice.

While most supplies made by charities will be taxable, certain non-commercial supplies will be GST-free.

9.2.1 Non-Commercial Activities

Non Commercial Activities are GST-free if the following conditions are met:

- All activities provided at no cost;
- Supplies sold for less than 50% of the GST inclusive market value of the item or less than 75% of the cost of the supply;
- Supplies of accommodation provided for less than 75% of the GST inclusive market value of the supply or less than 75% of the cost of providing the accommodation; and
- Sales of donated second hand goods that retain their original character.

The Treasurer has recently requested the ATO issue a ruling to clarify that newsletters, magazines and journals sold by charities, which are not commercial sales are GST-free.

Supplies that do not meet the above conditions are generally taxable supplies.

9.2.2 Fundraising

GST is generally payable on fundraising activities. The GST treatment varies depending on the nature of the activity and the registration option chosen by your organisation. Registration options, including sub-entities, will be discussed in Chapter 15.

If fundraising activities are undertaken by a sub-entity that is not registered for GST no GST will be accounted for on sales. However, GST paid on acquisitions will become an expense.

If the fundraising activities are undertaken by a GST registered entity the general rules will apply. Activities such as fetes, cake stalls and fundraising dinners will entail taxable supplies.

If an entity is registered any purchase, such as items for a raffle, or chocolate for a chocolate drive, are creditable acquisitions.

Raffles, bingo and other games of chance conducted by Church entities will be GST-free.

9.2.3 Donations and Gifts

GST will not be payable provided that the donation is both voluntary and unconditional. There must be no services, benefits or rights afforded to the donor as any of these might be construed as a 'consideration' (see Chapter 8.2) and turn the transaction into a taxable supply.

A gift must be given by a donor out of generosity or benefaction. A gift is made voluntarily with no material benefit provided to the donor as a result of the gift.

Donations given for a specific purpose will not give rise to a GST liability provided they are in the nature of a gift.

9.2.4 Grants

Is GST payable on a grant?

The answer to this question depends on the nature of the grant. If it is for a specific purpose then it will be subject to GST. The ATO has issued a specific ruling on this area.

The Commonwealth Government has indicated that it may "gross up" the grants so that organisations should receive the same amount after GST effects are eliminated.

The grants received from the government are treated as being a payment for services provided by your organisation. You are, in effect, invoicing the government for these services and the service is subject to GST. This is so even though you then supply the services as GST-free supplies to your clients.

Conditional grants made to a registered grantee will usually be subject to GST. A grant will be subject to GST if the following four tests are satisfied:

1) Is the grant consideration for a supply by the recipient to the grantor?
2) Is the supply to which the grant relates made as part of the recipient's enterprise?
3) Is the supply for which the grant is paid connected with Australia? and
4) Is the recipient of the grant registered, or required to be registered, for GST?

1. Grant as consideration for supply?
   The first test can be answered by considering whether the grant is conditional or unconditional. If the recipient undertakes or is required to do something in exchange for the funds the grant is a taxable supply.

   While a gift to a non-profit body is not consideration and so not subject to GST, most grants are not gifts. However, in some instances grants can be non-conditional and will be GST-free.
2. Enterprise
   The second test asks whether the supply by the recipient is made in the course of the recipient's enterprise. All activities of a religious institution or a charitable institution or fund, fall within this test.
3. Connected with Australia
   The third test requires that the supply is connected with Australia. Most supplies for which grants are consideration are supplies other than of goods or real property, that is, services. The supply of services is connected with Australia if the service is done in Australia or is made through an enterprise carried on in Australia. The ATO will issue a ruling on the meaning of "connected with Australia" in the near future.
4. Is the grantee registered?
   The last test requires the supplier to be registered, or required to be registered, for GST.

9.2.5 Sponsorship

Amounts paid as sponsorship fees are usually payment for services (such as advertising) and will be subject to GST if the sponsored entity is registered for GST. If the organisation supplying the service (such as advertising) is registered or required to be registered for GST, the organisation paying the sponsorship fee will be entitled to an input tax credit of 1/11th of the payment if it is registered. If the entity supplying the services is registered it will be liable to pay GST on the supply.

Non-monetary Sponsorship

If a sponsor provides goods and services in return for other goods and services, such as advertising or promotion, there is a supply by both parties to each other. This is called 'contra sponsorship'. If both parties are registered for GST, each will be liable to pay GST on the supply to each other.

10. Acquisitions (Purchases)

Parishes/congregations can claim back from the ATO the GST that is included in the price of goods and services they acquire for the purpose of making taxable supplies and GST-free supplies. To be able to claim GST input tax credits the organisation must hold a valid tax invoice in respect of the goods or services at the time the input tax credits are claimed in the BAS.

An organisation, however, cannot claim back GST that is included in the price of supplies that it acquires for private or domestic use.

Purchases Of Goods and Services

Input Tax Credits claimed

Input tax credits are available to entities registered for GST purposes.

The input tax credit is the GST paid on the purchases of goods and services used by the entity. For example, a parish would claim input tax credits for the following 'purchases' it may have made:

- **Parish and Presbytery Outgoings** – Cleaning, Repairs and Maintenance, Electricity, Insurance, Gas and rent paid for premises.
- **Stipend Payments** – Stipends paid to Religious Congregations and Orders.
- **Operating Expenses** – Telephone, Printing and Stationary, Parish goods and supplies, Book purchases, Motor Vehicle Expenses, Subscriptions and Accounting Fees.
- **Capital Expenditure** – Equipment and furniture, Building renovations.

Input Tax credits are available where GST is charged and a tax invoice is supplied.

In order for an entity to claim back the input tax credit it must ensure that the supplier (who is registered for GST purposes) of the goods or services provides a Tax Invoice.

- The Tax Invoice must be in the form that complies with the GST Legislation;
- The Tax Invoice is the proof as to the GST paid on the goods and services supplied;
- The Tax Invoice must be supplied to the entity within 28 days;
- The Tax Invoice is used to make payment to the supplier for the goods and services provided.

Tax Credits not claimed

An entity cannot claim input tax credits for goods and services where:

- No tax invoice is provided.
- Supplies are from a non-registered GST organisation.
- Goods are consumed for private or domestic purposes.
- Goods are used in making input taxed supplies.
- The input tax credits are precluded by legislation.

11. Specific Requirements for the Church

The following example has been tailored specifically for a parish. However, the principles demonstrated in the example can be applied in an analysis for any type of activity within the Catholic Church.

11.1 Working out the GST

Parishes will be required to allocate extra staff to properly account for the GST and maintain proper accounting records.

In order to work out the GST the parish must identify all transactions and how GST is applied.

Income

Parish income must be classified into four types of supplies, namely:

- Income that is a taxable supply where 1/11th of receipts is paid to the ATO.
- Income that is GST-free that relate to the supply of religious services.
- Income that is an input tax supply where no GST is charged.
- Income that is not a supply for consideration which is mainly donations.

Expenditure

Parish expenditure must be classified into the following categories to complete the information required in the BAS.

- Capital expenditure needs to be recorded separately in the parish accounting records (cash book or computer accounting system) to be reported on the BAS;
- The purchase of goods and services where GST is included in the purchase price;
- Expenditure (acquisitions) with no GST in the purchase price paid;
- Expenditure relating to input tax supplies;
- Expenditure that relates to salary & wages is shown separately;
- Expenditure that is used for private use or is a not allowable as a tax deduction.

Summary Table of Income (Detailed Transaction Analysis in Chapter 11.5)

NATURE OF INCOME	DETAILS	BAS
Donations	Planned Giving Envelopes, Loose Collection, Shrines/Candles, Bequests, Diocesan Subsidies, Surplus from Non-Profit Sub Entities	*Not a supply for consideration not included in BAS*
Supply of Religious Services	Income Received for Religious Ceremonies (Wedding, Funeral Baptisms etc)	*GST-free*
Raffles & Bingos	If does not contravene State Gambling Laws	*GST-free*
Non Commercial Sales	Donated Second Hand Goods Goods sold less that 75% of cost or 50% of market value. Sale of internal newsletters and magazines	*GST-free*
Taxable Supplies	Rent received from School/Business. Commission Received. Book & goods sold. Advertising in newsletter. Sponsorship, Government Grants, Sale of Assets	*Taxable supply where 1/11th of receipts is paid to the ATO.*
Input Tax Supplies	Rent Received from Individuals, Interest from Bank Accounts	*Input taxed*

Note: That it is assumed in the above Income Analysis that all fund raising activities of the parish are conducted by the establishment of Non-Profit Sub Entities where the income raised is not subject to the GST and the net surplus after expenses is donated to the parish.

Summary Table of Expenditure (Detailed Transaction Analysis in Chapter 11.5)

NATURE OF EXPENDITURE	DETAILS	BAS STATEMENT
Capital Expenditure	Equipment Purchases >$300, Renovations to Building	*Capital Acquisition*
Taxable Supplies	All Operating Expenses (Property & Operating costs) where GST is included in the purchase price	*Creditable Acquisition*
Input Tax Supplies	Bank Charges, Interest paid and expenditure relating to Residential Housing where the rent is charged at market rates	*Acquisitions for Input Tax Sales*
Private Use /Non Tax Deductible	Entertainment Expenses, Food	*Private Use of Acquisitions*
Non Taxable Supplies	Rates & Taxes, Payments to persons not registered for GST	*Acquisitions with no GST in price*
Donations	Payments to Building Funds, Contribution to Bishop's Fund	*Not a Supply for consideration Not included in BAS*
Salary & Wages	Paid to Lay Staff	*Salary & Payments*

11.2 Identification of the GST Implications of All Transactions

All parish transactions must be identified for GST purposes to be recorded properly in the accounting records. This is necessary to ensure the GST payable and receivable from the ATO is correct under the GST Legislation and for the information required in the BAS.

The transaction analysis in Chapter 11.5 outlines income and expenditure that is incurred by a parish for GST purposes.

11.3 Record Keeping

Parishes should keep accurate records for the following:

Income - Taxable Supply

(a) Where there is a liability for GST ensure that sale receipts are marked with GST component of the total sales amount and entered into the accounting records on a daily basis;

(b) Where there is a requirement to issue a tax invoice for a taxable supply to a registered entity for GST purposes ensure that the invoice complies with the GST Legislation;

(c) The accounting system (computer based or manual cashbooks) should separately record each transaction where GST is payable to the ATO.

Expenditure – Input Tax Credits

(a) Where GST is paid on the purchase of goods and services ensure that a proper tax invoice is received from the supplier before payment is made. Check that the GST component is correct on the tax invoice where possible;

(b) Before an order is made for goods and services check with the supplier on his status for GST purposes;

(c) The accounting system (computer based or manual cashbooks) should separately record each transaction where GST is refundable from the ATO.

Record all Inflows

As parishes operate on a cash basis for the recording of all receipts ensure that bankings are made promptly and reconciled to the bank statement and supporting records, (eg sale receipts).

File Tax Invoices received

Parishes should be aware that their accounting records and supporting documentation will be subject to ATO audits for compliance with GST Legislation. Tax invoices in particular require proper filing for inspection as they are the proof for the GST paid and subsequently claimed as input tax credits in the BAS. Filing is normally done in a cash payments system in cheque number order.

Keep all Bank Statements

Parishes should keep all bank statements and agree banking details (receipts and cheques presented) to supporting records.

Record Debtors and Creditors.

Where parishes use an accrual basis of accounting, tax invoices for debtors should be issued in the correct accounting tax period.

Similarly for creditors, the recording of liability for payment should occur when a tax invoice is received from the supplier. This is the tax period when the GST can be claimed.

Keep Records Up-to Date

It is important that the accounting system for parishes is kept up-to date on a regular basis:

(a) For receipts, the money is banked daily and recorded in the accounting system on a daily basis;

(b) For payments, cheques are drawn when payments are due to the supplier and recorded in the accounting system on a daily basis; and

(c) Bank reconciliation of the cash book balance with external bank statement is performed on a regular basis. As a minimum it should be performed on a monthly basis.

Ensure GST information and records are accurate and readily available when required

Parishes are required to keep the following accounting records for five years:

(a) Receipts, including records of supplies, tax invoices issued, cash register (till) Z-totals, deposit books and bank statements;

(b) Payments, including purchases and expenses documentation, tax invoices from suppliers, cash payments records, petty cash records, cheque butts and a log book for car expenses;

(c) Tax Adjustment Notes where used;

(d) Payroll records including employment declarations, PAYE employer's payment books and superannuation records;

(e) Cash Payments & Receipts Books either manual or computer based; and

(f) BAS and supporting audit records to support GST calculations.

11.4 System Checks.

(a) The accounting system (computer based or manual cash books) should record the GST payable to the ATO separately so that this amount at the end of the quarter or month agrees with the BAS.

(b) The accounting system (computer based or manual cashbooks) should record the GST receivable to the ATO separately so that this amount at the end of the quarter or month agrees with the BAS.

11.5 Transaction Analysis

Parish Expenditure

BAS	Expenditure	Types of Activity-GST Impact Taxable	Input Taxed	Not GST Related	Documentation and Status of Transaction	Notes
	SALARIES COSTS					
Yes	Salaries			Yes	No Invoice	Shown separately on BAS
Yes	Salaries on costs (LSL, AL)			Yes	No Invoice	Shown separately on BAS
Yes	Workers Compensation	Yes			Tax Invoice from CCI	Record in cash book "GST Receivable"
Yes	Stipend Payments (Religious/Order).	Yes			Tax Invoice from Religious Congregation	1/11th of cost of supply
	PREMISES AND EQUIPMENT COSTS					
	Property Outgoings - Parish & Presbytery					
Yes	Repairs & Maintenance	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable"
Yes	Cleaning	Yes			Tax Invoice from Supplier	1/11th of cost of supply and service
Yes	Electricity	Yes			Tax Invoice from Supplier	
Yes	Rates & Taxes & Levy			Yes		Shown as Acquisitions with no GST in price on the BAS
	Property Outgoings - Commercial Premises					
Yes	Repairs & Maintenance	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
	Property Outgoings - Residential Premises (the rent charged is at market rates)					
Yes	Repairs & Maintenance		Yes		GST is not claimed back from ATO	Shown as Acquistions for making GST
Yes	Electricity		Yes		Record as cost to Parish	Input tax supplies on the BAS
	Insurance premium		Yes			
	Property Outgoings - Residential Premises (the rent charged is at less than 75% of the market rent or less than 75% of the cost of providing the accommodation)					
Yes	Repairs & Maintenance			Yes	Tax Invoice from Supplies	Record in cash book "GST Receivable"
Yes	Electricity			Yes	Tax Invoice from Supplies	1/11th of cost of supply and service
	Insurance			Yes	Tax Invoice from CCI	
Yes	Property Outgoings - Presbytery House	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
Yes	Rent paid for premises (non residential)	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply used by Parish
	Equipment Purchases - by Parish > $300					
Yes	Furniture & Fittings	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable"
Yes	Office & Computer Equipment	Yes				1/11th of cost of supply used by Parish
Yes	Equipment Purchases - by Parish<$300	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply used by Parish
	Insurance Premium					
Yes	Premises - Parish, Presbytery, Commercial	Yes			Tax Invoice from CCI	Record in cash book "GST Receivable" Record as cost to Parish

Parish Expenditure

BAS	Expenditure	Types of Activity-GST Impact Taxable	Input Taxed	Not GST Related	Documentation and Status of Transaction	Notes
	DONATIONS					
No	Donations by Parish					
	General Donations			Donation	No Invoice	Not shown on BAS
	School Building Fund			Donation	No Invoice	Not shown on BAS
	OTHER OPERATING COSTS					
Yes	Communications					
	Telephone /Fax	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable"
	Post	Yes			Post office will absorb GST	1/11th of cost of supply and service
	Freight/Courier	Yes			Tax Invoice from Supplier	
	Internet/E-Mail	Yes			Tax Invoice from Supplier	
Yes	Printing & Stationary					
	Stationary Supplies	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable"
	Printing Costs	Yes			Tax Invoice from Supplier	1/11th of cost of supply and service
	Books & Articles (for sale & use)	Yes			Tax Invoice from Supplier	
Yes	Religious Workshop & Supplies Inc Leadership Books	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
No	Diocesan Contribution					
	Tax for Diocesan Services			Yes	No Consideration	Contributions are made for general
	Co- Responsibility			Yes	No Consideration	purposes for use by the Diocese or
	Contribution to Priest Fund			Yes	No Consideration	Priest Fund - Not shown on BAS
	Specific Contribution to Priest Fund	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable"
Yes	Planned Giving Expenses					1/11th of cost of supply and service
	Program & Stationary Costs	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
	Insurance Premium					
Yes	Motor Vehicle Insurance	Yes			Tax Invoice required, must inform CCI	Record in cash book "GST Receivable"
Yes	Contents - Insurance	Yes			the extent to which input tax credits are claimed for GST when policy is renewed.	1/11th of cost of supply and service
Yes	MV Third Party Property Insurance (State)		Yes		Cannot claim until 01/01/2003	Cost to parish

11.5 Transaction Analysis

Parish Expenditure

BAS	Expenditure	Types of Activity-GST Impact Taxable	Input Taxed	Not GST Related	Documentation and Status of Transaction	Notes
	OTHER OPERATING COSTS					
Yes	Functions/Fund Raising by Parish					
	Hire of hall	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable"
	Food Supplies (Not Fresh Food)	Yes			Tax Invoice from Supplier	1/11th of cost of supply and service
Yes	Advertising paid in Catholic Newspapers	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
Yes	Bank Charges		Yes		None	Shown as Acquisitions with no GST in price on the BAS
Yes	Interest Expenses on Loans & Cheque A/cs		Yes		None	Shown as Acquisitions with no GST in price on the BAS
Yes	Travelling Expenses					
	Petrol, Registration of MV	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable"
	Air Travel & Accommodation	Yes			Tax Invoice from Supplier	1/11th of cost of supply and service
Yes	Equipment Maintenance					
	Photocopy Charges	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable"
	Motor Vehicle Repairs	Yes			Tax Invoice from Supplier	1/11th of cost of supply and service
Yes	Subscriptions	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
Yes	Lease Payments for Equipment	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
Yes	Parish Sundry Goods	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
Yes	Accounting Fees	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
Yes	Entertainment Expenses			Yes	Entertainment Expenses that are not a deduction for Income Tax Purposes Private Expenditure	Non - income tax deductible acquisitions Cannot clain input tax back from ATO Cost to Parish

Parish Expenditure

BAS	Capital Expenditure	Types of Activity-GST Impact Taxable	Input Taxed	GST Free	Documentation and Status of Transaction	Notes
Yes	Motor Vehicle Purchased	Yes			Tax Invoice from Supplier	GST not claimed until 2001 50%, 2002 100% of GST
Yes	Major Renovations to Building	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
No	Loan Repayments - Principal		Yes			Not Subject to GST
Yes	Property Purchases (other than not new residential))	Yes			Tax Invoice from Supplier	Record in cash book "GST Receivable" 1/11th of cost of supply and service
	Please note that in the BAS Capital purchases of assets are shown as Captial acquisitions					

Parish Income

BAS	Income - GST-free Supplies	BAS CLASSIFICATION Taxable	Input Taxed	GST-free	Documentation and Status of Transaction	Notes
No	SECOND COLLECTION Planned Giving Envelopes - Parish				DONATIONS - not a supply for consideration	Not shown in BAS
No	SECOND COLLECTION School Building Fund Catholic Charities Fund				DONATIONS - not a supply for consideration Receipt includes - Name of Building Fund (DGR) - DGR Number	Not shown in BAS
No	LOOSE COLLECTION				DONATIONS - not a supply for consideration	Not shown in BAS
No	SHRINES/CANDLES CHURCH				DONATIONS - not a supply for consideration	Not shown in BAS
No	DONATIONS - GENERAL/SPECIFIC PURPOSES				DONATIONS - not a supply for consideration if in the nature of a gift	Not shown in BAS
No	DONATIONS - FROM NON PROFIT SUB ENITIES				DONATIONS - not a supply for consideration	Not shown in BAS (See Parish Unit Section).
No	DIOCESAN COLLECTIONS				DONATIONS - not a supply for consideration	Not shown in BAS
No	BEQUESTS/LEGACIES				DONATIONS - not a supply for consideration	Not shown in BAS
Yes	RELIGIOUS CEREMONIES					
	Wedding Fee for Church and Priest			Yes	None	The fee charged is for the conduct
	Funeral Fee for Service by Priest			Yes	Tax Invoice issued to Funeral Co.	of the religious service by the priest and does
	Baptisms, Communion, Confirmations			Yes	None	not include the supply of goods.
No	DIOCESAN SUBSIDY				DONATIONS - not a supply for consideration	The purpose of the subsidy is for general purposes and is unconditional
Yes	RENTAL INCOME - RESIDENTIAL Rent received from Individuals (the rent is charged at less than 75% of the market rent or less than 75% of the cost of providing the accommodation)			Yes	None	No GST is charged on the rent received
Yes	RAFFLES AND BINGOS			Yes	Licence Held to conduct raffle	GST-free if is does not contravene State Gaming
Yes	PIETY STALL					Laws. Otherwise taxable.
	Goods donated second hand			Yes		Where goods retain their original character.
	Goods Purchased and sold			Yes	GST-free where sold less than 75% of cost or 50% of market price. Otherwise taxable.	
Yes	Sale of Newsletters , magazines and journals			Yes	Not Commerical sales	

Parish Income

BAS	Income - Taxable Supplies	BAS CLASSIFICATION Taxable	Input Taxed	GST Free	Documentation and Status of Transaction	Notes
Yes	RENTAL INCOME - COMMERCIAL					
	Rent Received from Business	Yes			Tax Invoice must be issued	Record in cash books "GST Payable"
	Rent Received from School	Yes			Tax Invoice must be issued	1/11th of receipts
Yes	COMMISSIONS & FEES					
	Catholic Church Insurance	Yes			Tax Invoice must be supplied	Record in cash books "GST Payable"
	Other Organisation	Yes			Tax Invoice must be supplied	1/11th of receipts
Yes	* SALE OF BOOKS & ARTICLES	Yes			1/11th of receipts GST payable	Record in cash books "GST Payable" 1/11th of receipts
Yes	ADVERTISING IN PARISH BULLETIN	Yes			Tax Invoice Issued	Record in cash books "GST Payable" 1/11th of receipts
Yes	FUNDRAISING CONDUCTED BY THE PARISH					
	* Dinner/dance in Parish Hall	Yes			1/11th of receipts GST payable	NOTE - Raffles and other froms of gambling
	* Raffles conducted by the parish	Yes			1/11th of receipts GST payable	will be taxable if it contravenes state law.
	Sponsorships	Yes			1/11th of receipts GST payable	GST = 1/11th of (total collected less cash prizes)
	* Piety Stall/Auctions (New goods sold)	Yes			1/11th of receipts GST payable	
Yes	GOODS SUPPLIED BY PARISH				1/11th of receipts GST payable	Record in cash books "GST Payable"
	Flowers supplied and charged to service	Yes			Tax Invoice Issued	1/11th of receipts
	Cemetry plots sold to parishioners	Yes			Tax Invoice Issued	
Yes	CAPITAL RECEIPTS				Tax Invoice must be issued	
	Capital grants	Yes			1/11th of receipts GST payable	Record in cash books "GST Payable"
	Sale of Assets (Motor Vehicles)	Yes			1/11th of receipts GST payable	1/11th of receipts
	Sale of Property (Land & Building) - excludes the sale of residential property owned by parish	Yes			1/11th of receipts GST payable Tax Invoice must be issued	
	* If these activities are carried out by a Non- Profit Sub Entity, then the Income raised is not subject to GST and is donated to the Parish					

Parish Income

BAS	Income - Input Taxed Supplies	BAS CLASSIFICATION Taxable	Input Taxed	GST Free	Documentation and Status of Transaction	Notes
Yes	RENTAL INCOME - RESIDENTIAL Rent Received from Individuals (the rent charged is at market rates)		Yes		None	No GST is charged on rent received
Yes	INTEREST					
	From Catholic Development Fund		Yes		None	Inculded in BAS
	From External Banks		Yes		None	
Yes	CANTEEN/TUCKSHOPS		Yes		None	No GST Payable to ATO

11.5 Transaction Analysis

Non-Profit Sub-Entities

Income	NON - PROFIT SUB - ENTITIES	Types of Activity-GST Impact Taxable	Input Taxed	GST Free	Documentation and Status of Transaction	Notes
NOTE:	Where certain activities of a parish are independent then they can choose not to fall under the Registration of the Parish for GST Purposes and will be regarded as "NPSE" (1) The unit turnover is less than $100,000. (2) The unit operates under a separate committee from the parish and is referred to as a separate entity (3) The unit maintains independent accounting records to identify the NPSE transactions. **ASSUME THAT NON-PROFIT SUB-ENTITIES ARE NOT REGISTERED FOR GST PURPOSES**					
	<u>PIETY STALL</u> Goods Sold at Trading Tables			X		Surplus from Trading can be donated to the parish GST-free
	<u>FUNDRAISING/DINNERS</u> Dinner /dance functions Social Functions			X	No GST can be claimed back on goods & services supplied at these functions	Surplus from Trading can be donated to the parish GST-free
	<u>GOODS SOLD BY THE PARISH (Now a NPSE).</u> Religious Goods sold (New)			X	No GST can be claimed back on goods purchased	Surplus from sales donated to Parish
	REGISTRATION REQUIREMENTS: The parish (the eligible entity) should formalise thecreation of NPSE by formal letter outlining the activities that will constitute the NPSE. Where the NPSE has a turnover less than $100,000 it will not be required to register for GST purposes thus, the revenue raised will not be a taxable supply for GST purposes and GST on inputs will not be allowed. The NPSE should keep independent accounting records from the Parish (the core entity).					

12. Registration & Endorsement

A key part of the New Tax System is a broad-based Goods and Services Tax (GST) applying to most goods and services. As part of the broad base of the tax, religious organisations will become part of the tax system (some for the first time), but many activities will be GST-free.

The current entity-based exemption system from wholesale sales tax for charitable and religious organisations cannot be transferred to the activity-based GST. (For wholesale sales tax, many religious entities were exempt. Under the GST system, there are no exempt entities. Transactions of entities may or may not be GST-free according to their nature.) According to the Tax Office, the availability of input tax credits for GST paid on goods and services purchased by religious organisations will maintain an effective tax-free status for the sector.

To participate in The New Tax System entities need to register by the 31st May 2000.

12.1 Registration for an ABN

Most entities within the Church will benefit from registering for an ABN. The reasons for obtaining an ABN are discussed in Chapter 13 of this manual.

You can register for the New Tax System by filling out an application form and sending it to the ATO. Some Church groups will have received a pre-printed registration form from the ATO. If not, or if you require more forms, you can obtain a registration package by phoning the business Tax Reform Infoline on 13 24 78 or by collecting one at a Post Office, or newsagent, or bank.

As an alternative, the ATO has made available an Excel spreadsheet for Catholic bodies such as religious congregations and parishes/dioceses who may wish to register multiple entities. This will assist lodgment for Church bodies seeking registration for themselves and for a number of their other units.

Other ways to register are:

- Electronically through the Business Entry Point at *www.business.gov.au*; or
- Your tax agent can also lodge your application through the Electronic Lodgment System.

Further details are provided in Chapter 13.

12.2 Registration for GST

Non-profit organisations including religious organisations must register for GST if they have an annual turnover of $100,000 or more. Donations and interest are not included in the calculation of turnover for registration purposes. Organisations with a turnover of less than $100,000 may choose whether or not to register for GST.

The operation of the GST is explained in Chapters 4 and 6 of this manual. For those entities which may choose whether or not to register for GST (that is, entities with a turnover of less than $100,000), further information is provided in Chapter 14.

Some options about the form of registration are discussed in Chapter 15.

12.3 Endorsement as an Income Tax Exempt Charity (ITEC)

An Income Tax Exempt Charity is a charity that has been endorsed by the ATO as exempt from income tax. Most church entities are charities (see Chapter 9.2).

Charities are not automatically exempt from income tax. From 1 July 2000 there is a new system of endorsement which means charities must apply to the ATO for exemption. If the ATO gives you notice that you are endorsed as exempt from income tax, you do not need to lodge income tax returns unless specifically requested to do so.

To be endorsed as an Income Tax Exempt Charity (ITEC) you must:

- ▲ Have an Australian Business Number (ABN);
- ▲ Be entitled to endorsement;
- ▲ Apply to the ATO for endorsement.

The requirements for endorsement are different for charitable institutions and charitable funds. Some charitable funds that were **not established in Australia** cannot be endorsed. They are:

- ▲ Charitable funds established by a will from 1 July 1997; and
- ▲ Charitable funds established by an instrument of trust.

All other charities must be endorsed to be exempt from income tax. They are:

- ▲ Charitable institutions;
- ▲ Charitable funds established by a will before 1 July 1997;
- ▲ Charitable funds established in Australia by a will on or after 1 July 1997; and
- ▲ Charitable funds established in Australia by an instrument of trust.

The requirement for endorsement applies even if the institution or fund also falls in some other category of income tax exempt entity. Other categories include religious institutions, scientific institutions and public educational institutions.

To be endorsed, entities must first register for The New Tax System and receive an ABN. On the ABN registration form answer 'Yes' to questions 9, 10 and 12. The ATO will then send to you the relevant application form.

The ATO is also to make available an Excel spreadsheet to facilitate bulk endorsement of multiple ITEC entities. Parishes should consult their Diocesan, or Congregational Business Managers for details. Congregations may wish to consult with ACLRI.

Refer to Chapter 16 for further details regarding ITEC endorsement.

12.4 Endorsement as a Deductible Gift Recipient (DGR)

A Deductible Gift Recipient (DGR) is an entity that is entitled to receive income tax deductible gifts. All DGRs have to obtain endorsement, unless they are named specifically in the income tax law.

To be endorsed, entities must first register for The New Tax System and receive an ABN. On the ABN registration form answer 'Yes' to questions 9 to 12. The ATO will then send to you the relevant application form. Separate applications will be required for each status (DGR and ITEC).

Chapter 17 provides more explanation about what is entailed in obtaining endorsement for Gift Deductibility.

Registration Deadline

You must register by 31 May 2000 to be part of The New Tax System when it commences on 1 July 2000.

13. Australian Business Number (ABN) Registration

Single identifier for all entities
When you register you will receive an Australian Business Number (ABN). This is a new identifier which you will use for your dealings with the ATO and for future dealings with other government departments and agencies at all levels.

Why Should we Register for The New Tax System?

If you register for The New Tax System and receive an ABN:

- You will be able to apply to the ATO for endorsement as a Deductible Gift Recipient and/or as an Income Tax Exempt Charity;
- You will be able to register for GST and therefore able to claim input tax credits for GST paid on goods and services which you acquire;
- You will be able to register as a group employer (if you have employees); and
- You will receive full payment from other registered entities. (Organisations and individuals who have registered for GST will be required to withhold 48.5 cents in every dollar from payments which they make to you for goods and services you supply to them, if you are not registered.)

Who is Entitled to Register for an ABN?

To be entitled to an ABN you must be:

- A company registered under the Corporations Law;
- A government department or agency;
- An entity carrying on an enterprise in Australia; or
- A non-profit sub-entity.

An entity for ABN purposes means an individual, a body corporate, a corporation sole, a body politic, a partnership, an unincorporated association or body of persons, a trust or a superannuation fund.

Branches of charities and other not-for-profit organisations may choose to register as a non-profit sub-entity, as explained in Chapter 15. This flexibility may be particularly useful to many Church entities.

You can register for an ABN, GST, FBT, PAYG and other elements of The New Tax System at the same time.

Your Church entity should register for at least one ABN regardless of the number of enterprises that you undertake. However, if your enterprises are carried on by a number of different entity types, each entity must register in its own right.

If your organisation is a subsidiary of a governing body, it is advisable that you discuss ABN registration with your governing body.

How to Register

By filling out an application form.
There are two versions of the application form. The **generic** version (available from the ATO, post offices and newsagents) has 49 questions and has no pre-determined answers. The **pre-printed** version is provided by the ATO to organisations with which it has had previous dealings or on request from an organisation. It has 41 questions with answers to some of these pre-completed for verification by the user. Both versions include a compulsory Attachment A.

To assist Church entities to correctly and consistently complete the application form, the guide “Sample Answers to the ABN Registration Form” has been compiled and can be obtained from your Congregational or Diocesan Business Manager or ACLRI.

Using the Excel spreadsheet.
Contact your Diocesan or Congregational Business Manager or ACLRI.

Electronically at *www.business.gov.au*

Registrations can be lodged electronically by going to the above web-site and filling in the electronic form. The "Sample Answers" guide can still be used to register in this format, however some of the concessions available to Catholic organisations will not be accepted by the electronic form, especially at question 18 (contact person) and in Attachment A.

Lodgment by Tax Agent

If you have a tax agent then your agent can lodge your registration form through the Electronic Lodgment System. However some of the concessions available to Catholic organisations may again not be accepted.

14. GST Registration

14.1 Based on Turnover

The registration turnover threshold is $100,000 (for church and charitable organisations).

This means that if your turnover (excluding donations and interest) is greater than $100,000 per annum you **must** register for GST.

If your turnover is less than $100,000 you can choose to register. You might do this if:

- You believe that your turnover may reach $100,000 within the next twelve months; or
- You wish to claim input tax credits (a refund) for GST which you have paid on goods and services which you have acquired; and
- The cost of complying with GST reporting requirements does not exceed the amount of input tax credits which you expect you will be able to claim.

What is turnover?

Whether or not you prepare annual accounts, you could regard your turnover as being the total amount of income received during the year. However some amounts are specifically excluded from turnover.

Turnover includes:

- All taxable supplies
- All GST-free supplies

Turnover excludes:

- General donations (no supply)
- Pensions
- Patrimony
- Sale or transfer of capital assets
- Input taxed supplies – investment receipts, repayment of borrowings.

Registration Turnover Threshold

To determine whether the Registration Turnover Threshold has been met, regard must be had to both the **current annual turnover** and the **projected annual turnover:**

- Current annual turnover = Current month + previous 11 months
- Projected annual turnovers = current month and next 11 months

If the Registration Turnover Threshold is reached, the entity **must** register within 21 days.

Entities with an ABN but not registered for GST should have regard to their GST status whenever contemplating a large transaction (for example, a government grant). Such a transaction when it occurs can cause the entity to exceed the registration turnover threshold.

14.2 Why Register for GST?

The main advantage of registering for GST is that you will be able to claim a refund (input tax credits) of GST paid on goods and services which you buy. The main disadvantage is the risks in not complying with the new laws and therefore the cost of compliance.

Each Church body which is under the registration turnover threshold ($100,000) may wish to consider the types and volumes of acquisitions (purchases) of goods and services which it makes and try to estimate the financial impact of not being able to claim back amounts of GST paid out. Entities may be able to utilise the flexible registration provisions discussed in Chapter 15 to register some of their enterprises but not others.

If doubt exists as to whether or not to register for GST it is advisable to obtain professional advice.

14.3 Registration Implications

14.3.1 Charge GST

Entities including church entities that are registered for GST will generally charge 10% GST when they supply any goods, services or anything else as part of their enterprise, unless the supply qualifies as a GST-free or input taxed supply. The definition of a supply is wide ranging (see Chapter 5). A supply of services includes for example the ministry of an individual religious in consideration of which a stipend is paid.

Entities, which charge GST, are required to remit the GST collected to the ATO (but offset by input tax credits as described below).

14.3.2 Claim input tax credits

You will also pay GST on the things you acquire for your enterprise. Registered entities can claim a refund of the GST they have paid. This is called an input tax credit. Input tax credits can only be claimed where the acquisition (purchase) was of a taxable supply for a creditable purpose. The amount of GST included in a price paid can be determined by dividing the price by eleven.

14.3.3 Reporting to the ATO

The difference between the GST you have collected and the GST you have been charged is the amount you owe to or are owed by the ATO. You pay this amount or claim a refund when you submit a BAS (see Chapter 20).

If you are registered for GST you must submit a BAS within 21 days of the end of each tax period (see Chapter 20). You must keep records supporting your BAS for five years.

There are penalties for not complying with the provisions of the GST legislation so registered entities will be wise to adopt a compliance and risk management program.

14.3.4 Cash Flow Implications

Whether registering for the GST will create a positive or negative cash flow effect will depend on whether the entity is a net remitter of GST to the ATO or a net claimant of input tax credits.

Whatever the case, the introduction of the GST is likely to distort your current pattern of cash flows. Church entities may wish to examine the cash flow effect of the GST and plan accordingly.

14.3.5 Other Implications

Entities who register for GST will have to prepare for the GST. The specific preparation requirements are detailed in Chapter 11.

14.4 Non-Registration Implications

14.4.1 Cannot claim input tax credits

Church entities which are not required to be registered (that is, have a turnover of less than $100,000) and which then **choose not to register** will be unable to claim input tax credits for GST which they pay on their acquisitions of goods and services.

As GST will apply to most purchases that an entity makes including for example, motor vehicles, building maintenance and general insurance, the amounts of GST paid by an entity can quickly become large.

Entities considering not registering for GST should carefully consider the potential economic impact of the decision.

14.4.2 Cannot claim a credit for Wholesale Sales Tax

The Wholesale Sales Tax system ends on 30 June 2000. Entities, which on that date hold trading stock upon which they have paid wholesale sales tax, are entitled to claim a refund of the wholesale sales tax previously paid. This provision may be of interest to church entities that conduct retail activities such as bookshops or gift shops.

14.4.3 Reporting to the ATO

Entities that do not register for GST may have other tax obligations and entitlements such as FBT and PAYG withholding for group tax deducted from employees wages or withholdings from amounts paid to unregistered suppliers. These amounts are reported to the ATO each reporting period on an Instalment Activity Statement (IAS).

The reporting period depends on the amount of PAYG tax instalments payable:

- Quarterly for annual amounts to $25,000;
- Monthly for annual amounts between $25,001 and $1 million; and
- Weekly for annual amounts greater than $1 million.

The IAS is required to be lodged with the ATO on the 21st day of the month following the end of the reporting period.

The main advantage of not registering for the GST is the reduction or elimination of the costs of compliance. This advantage will frequently be outweighed by the economic disadvantage discussed in 14.4.1 and 14.4.2.

14.4.4 Constant Monitoring of Turnover

If an entity is required to be registered (turnover exceeds the $100,000 threshold) but is not registered it can suffer material loss (see Chapter 14). Entities not registered for GST must monitor their current and projected turnovers and register within 21 days of becoming required to be registered.

14.5 Registering for GST?

You register or not register for GST when you complete your application form for an ABN.

On the "Application to Register for the New Tax System – Companies and Other Organisations" form GST registration is dealt with at questions 37 and 38 if you are using the **generic** form or questions 30 and 31 if you are using the **pre-printed** form (refer to Chapter 13).

Failure to Register for GST when Required

If an entity which is required to register for GST (because its turnover exceeds $100,000 per annum) fails to register then:

- It may be subject to penalties;
- It will be ineligible to claim input tax credits on its creditable acquisitions;
- It will be liable to the ATO for one eleventh of its receipts in respect of taxable supplies it has made; and
- It may have problems recovering this GST liability from its clients.

Therefore, it is important that an entity monitors its turnover on a monthly basis to ensure GST registration is obtained within 21 days of turnover exceeding the threshold.

14.6 Cancelling your GST Registration

You must apply to cancel your GST registration with the ATO within 21 days of ceasing to carry on an enterprise. If you have more than one enterprise, you only have to cancel your registration if you cease to carry on all your enterprises. You can also apply to cancel your GST registration if your annual turnover drops below $100,000 (for non-profit organisations).

If your GST registration is cancelled, the ATO will notify you in writing of the date of effect of your cancellation.

If you don't apply to cancel your registration when required, the ATO can cancel your registration and backdate the cancellation. Any supplies and acquisitions you made between the date of effect of the cancellation and the date of the decision are outside the GST system. This means GST is not payable on supplies and you cannot claim input tax credits. You may be penalised for failing to apply to cancel your GST registration if you are no longer carrying on an enterprise.

Notes

15. Form of Registration

15.1 Individual

Each entity should register to obtain an ABN.

'Entity' is defined by the ATO as meaning any of the following:

- An individual;
- A body-corporate;
- A corporation sole;
- A body politic;
- A partnership;
- Any other unincorporated association or body of persons;
- A trust;
- A superannuation fund.

15.2 Grouping

Grouping is when a number of bodies decide that accounting for GST will be undertaken by one of the group rather than each accounting separately. To do so each member of the group must:

- Have an ABN;
- Be registered for GST;
- Be members of the same non-profit association;
- Have the same accounting period (see Chapter 20);
- Have the same method of accounting (see Chapter 19); and
- Not be a member of any other GST group.

Grouping means:

- One member is responsible for keeping records and attending to GST transactions.
- GST does not apply on inter-entity transactions.

To apply for approval as a GST group each entity must first obtain an ABN and register for GST. The entity that will represent the group for GST accounting purposes will then contact the ATO to obtain an application form. The application form is then completed and submitted to the ATO who will then approve the group of entities as a GST Group.

15.3 Branches

Branching is when sections of the entity become separate divisions for GST purposes. It is permitted where the branches:

- Already, or intend to, carry on an enterprise from the branch;
- Maintain an independent system of accounting;
- Can be separately identified by either
  - the nature of the activities; or
  - the location; and
- The entity (main body) is not a member of a GST group.

You do not have to register all of your branches separately as GST branches. You can choose to register one branch, some or none.

To work out if an entity should register its branches, the registration turnover threshold applies to the entity as a whole, not to each branch separately.

15.4 Non-profit Sub-Entities (NPSE)

Charities and most not-for-profit organisations that are income tax exempt have flexible GST registration options. Church entities will need to consider these options prior to registering.

In most cases, it will be wise to obtain professional advice in this regard by consulting with your local accounting or legal advisors about your registration options.

Charitable institutions (that are registered for GST) can separately identify activities or units from the core entity for GST purposes so that income generated from these activities are not subject to GST. These units are known as non-profit sub-entities, (NPSE).

The registered entity can elect to treat identifiable activities as a separate unit for GST purposes known as NPSE. To qualify for NPSE the following criteria must be met:

(1) The registered entity is a charitable institution (Schools, Parishes and Congregations);

(2) The turnover of the NPSE is below $100,000;

(3) The NPSE maintains an independent system of accounting, which allows all of its transactions to be identified; and

(4) The NPSE can be separately identifiable either through its activities or its location, and can be referred to in the "core" entity's records as a separate unit.

From a practicable point of view the following should be considered:

(1) The NPSE does not obtain an ABN unless its turnover exceeds $100,000 for GST purposes. Where this happens you should consider to break down the NPSE further if you can meet the above criteria or bring back the accounting for the transactions into the "core entity".

(2) Whilst the legislation does not detail how to create a NPSE it is recommended that the "core entity" being a school or parish for example formalise the creation of the NPSE by formal letter outlining the activities that will constitute the NPSE that is controlled by a separate committee. (Example: fundraising committee, fete committee). Copies of this letter are to be kept by the "core entity" and sub-entity;

(3) There is no limit to the number of NPSE used by a charitable institution;

(4) The transactions relating to the NPSE are not subject to GST. Revenue raised is free from GST, therefore no input tax credit can be claimed for the GST paid on the purchase of goods and services used in the activities conducted by the NPSE;

(5) The transactions relating to the NPSE must be identified separately for accounting purposes with either separate general ledger accounts in a computer system or columns in a cashbook. **Separate bank accounts are recommended and should be used.** However, if a separate bank account is not possible or practical, please ensure that your accounting records reflect a clear and visible distinction between the "core entity" and the sub-entity i.e. they are separate. The ATO, through the Charities Consultative Committee will be issuing a ruling on 'separate accounting' in the near future;

(6) If for some reason, it is decided that the sub-entity ceases to exist, it is again recommended that the "core entity" being a school or parish for example formalise this abandonment of the NPSE by formal letter. Copies of this letter are to be kept on file as a record.

16. Income Tax Exempt Charity (ITEC) Endorsement

An Income Tax Exempt Charity (ITEC) is a charity that has been endorsed by the ATO as exempt from income tax.

Charities are not automatically exempt from income tax. From 1 July 2000 there is a new system of endorsement which means charities must apply to the ATO for exemption. If the ATO gives you notice that you are endorsed as exempt from income tax, you do not need to lodge income tax returns, unless specifically requested to do so.

Why introduce endorsement?

The approval process will limit concessions so that they are only available to endorsed charities. Only endorsed charities will maintain funding levels from trust distributions or be able to be income tax exempt.

Charities will also benefit from increased community confidence in the charitable sector.

Who can be endorsed?

Australian organisations are entitled to endorsement if they are regarded as charities and satisfy certain specific conditions.

Is endorsement compulsory?

From 1 July 2000, endorsement is compulsory for a charity to become or continue to be income tax exempt.

Do currently exempt charities need endorsement?

Charities that currently have income tax exempt status need to be endorsed from 1 July 2000. Endorsement replaces current self-assessment and confirmation arrangements for income tax exemption. These arrangements cease to operate from 1 July 2000.

Do you need an Australian Business Number (ABN)?

A charity seeking endorsement must first obtain an ABN.

You should lodge an application for an ABN as soon as possible.

Do you need to register for GST?

You do not need to register for GST to apply for (or obtain) ITEC endorsement

Does endorsement entitle you to receive tax deductible gifts?

ITEC endorsement does not entitle you to receive tax deductible gifts. There is a separate endorsement to Deductible Gift Recipients (DGR). For further information refer to Chapter 17

How do you apply for endorsement?

To apply for endorsement as an ITEC you must lodge the form "Application for Endorsement as an Income Tax Exempt Charity" with the ATO.

This application is made after you receive you ABN. When registering for an ABN, answer Yes to question 10. The ATO will forward the ITEC application form to you when they send your ABN.

The Australian Catholic Church Tax Working Group will provide assistance in the completion of ITEC endorsement applications. An Excel Spreadsheet is to be made available by the ATO for bulk lodgement in some circumstances. Contact your Diocesan or Congregational Business Manager or ACLRI.

Notification

Once the ATO has processed your application, it will send you written confirmation that:

- You are endorsed as exempt from income tax; or
- Endorsement has been refused.

If you are endorsed you are exempt from income tax from the date the endorsement starts.

Entitlements & Obligations

Being endorsed as an income tax exempt charity (ITEC) gives you important income tax entitlements. An ITEC:

- Does not pay income tax; and
- Does not have to lodge income tax returns unless specifically requested to do so.

However, there is an important obligation. If an ITEC ceases to be entitled to endorsement, it must tell the ATO in writing.

ATO review

As part of its general administration of taxation laws, the ATO will carry out reviews of ITECs. The reviews will help establish if ITECs are in fact entitled to endorsement.

The ATO may request that you provide information and documents that are relevant to your entitlement to endorsement. While you must comply with this request, you will be given at least 28 days to provide the required information and documents. Failure to comply can lead to endorsement being revoked, and to prosecution.

The ATO "Charity Pack" contains full details about ITEC Endorsement.

17. Deductible Gift Recipient (DGR) Endorsement

Deductible Gift Recipients (DGRs) are entities to which donors can make income tax deductible gifts.

Under the existing tax system charities have been able to self-assess their gift deductibility or obtain confirmation from the ATO. This system will cease on 30 June 2000 and a new system of endorsement of an organisation as a deductible gift recipient will commence.

From 1 July 2000 DGRs will:

- Be listed by name in the income tax legislation; or
- Have received a notice from the ATO stating they have been endorsed as DGRs.

From this date a charity which is not endorsed will lose any current gift deductibility.

What is endorsement about?

Endorsement is the new approval process for organisations applying to the ATO for DGR status

Why introduce endorsement?

The Government wants to ensure that only those organisations that the law intended to have DGR status receive that status.

Who is entitled to endorsement?

Organisations are entitled to endorsement if they qualify under one or more of the categories set out in the gift provisions of the income tax law.

Is endorsement compulsory?

From 1 July 2000, endorsement will be compulsory for an organisation that wishes to obtain (or continue to hold) DGR status.

Do current DGRs need endorsement?

Generally, organisations that have current DGR status need to be endorsed from 1 July 2000. Endorsement replaces current DGR confirmation arrangements. These arrangements cease to operate from 1 July 2000.

Do all DGRs have to apply?

No. Organisations specifically mentioned by name in the income tax law do not have to apply for endorsement.

Do you need an Australian Business Number (ABN)?

An organisation seeking endorsement must first obtain an ABN. You should lodge your application for an ABN as soon as possible.

Do you need to register for GST?

You do not need to register for GST to apply for (or to obtain) DGR status.

Does DGR endorsement cover income tax exempt charity status?

No. Endorsement as an income tax exempt charity is a separate process. Organisations that consider themselves to be a charity as well as a DGR should indicate this on their ABN application.

What are the pre-requisites for endorsement?

- The applicant must have an Australian Business Number (ABN);
- The applicant must maintain a gift fund;
- The organisation (or relevant part of the organisation) must:
  - generally be in Australia
  - come within a gift category set out in the income tax law, and
  - satisfy any special conditions in the tax law.

What is a gift fund?

A gift fund is a special fund that the applicant must maintain to receive all gifts made for the principle purpose of the applicant organisation (or for the principal purpose of the relevant part of the organisation).

The gifts can only be used for the principal purpose of the applicant (or for the relevant part of the applicant organisation).

For further information see the fact sheet "*Gift fund requirements for deductible gift recipients (DGRs)" available from the ATO.*

What does *in Australia* mean?

To be in Australia, the applicant (or relevant part of the applicant's organisation) must:

- Be established in and operating in Australia; and
- Have its beneficiaries and purposes in Australia.

Overseas aid funds and public funds on the register of environmental organisations need not meet this criteria.

Can sub-entities be endorsed?

Certain not-for-profit organisations can choose to treat separately identifiable sections of their organisations (non-profit sub-entities) as though they are entities for GST purposes. Sub-entities can have their own ABN.

However, a non-profit sub-entity cannot be endorsed as a DGR in its own right. The parent organisation must apply for endorsement on behalf of the non-profit sub-entity.

Which ABN should be used on the application?

The organisation making the application must quote its ABN. This applies even where an applicant is seeking endorsement for a particular fund, authority or institution that it operates, and this part of the organisation has an ABN that is issued to it on the basis that it is a non-profit sub-entity.

For example, if a church applies for endorsement of a sub-entity welfare institution that it operates, it must use its own ABN, even if the institution has a separate ABN for GST purposes.

How do you apply for endorsement?

To apply for endorsement as a DGR you must lodge the form "Application for Endorsement as a Deductible Gift Recipient" with the ATO.

This application is made after you receive your ABN. When registering for an ABN answer Yes to question 11. The ATO will forward the DGR application form to you when they send your ABN.

Can endorsement be streamlined?

Where current DGR status has been confirmed by the ATO, the endorsement process is streamlined by an organisation quoting its current 900/DGR number on its application. If an organisation does not know its 900/DGR number, the organisation should make a written request now to the ATO for the number.

In January 2000 ACBC and ACLRI requested from members details of DGR entities. Those were compiled and submitted to the ATO. They are now being processed and 900/DGR numbers should be available to entities shortly.

18. Registration Sequence

18.1 Registering Legal Entities

Register as soon as possible to receive an ABN and for GST electronically or by completing an application form.

18.2 Registering a Non-Profit Sub-Entity

Register as soon as possible after you have identified the sub-entities which you wish to register. Register each sub-entity for the GST or not, according to the particular circumstances of each sub-entity.

If you have numerous entities to register, you may wish to register the principal entity and the sub-entities at the same time using the Excel spreadsheet.

Note that it may not be necessary to register some non-profit sub-entities for an ABN (See Chapter 15)

18.3 Applying for ITEC & DGR Endorsement

When the ATO sends you the ABN for your entity they will also provide the required application forms. Complete and submit these as soon as possible. Note that this may be done on an Excel spreadsheet. Contact you Diocesan or Congregational Business Manager.

18.4 Registering a Branch

After you have received the ABN for the principal entity, contact the ATO to request the application form for branch registration.

18.5 Registering a Group

When each member of the group has received its ABN, the representative member contacts the ATO to request the application form.

Notes

19. Accounting for GST

19.1 Cash v Accrual Accounting

An entity which has registered for GST will report its tax entitlements and obligations on a new single form called a **Business Activity Statement (BAS)** (see Chapter 20)

You will claim input tax credits and account for GST payable on your Business Activity Statement at the end of each **tax period** (see Chapter 20).

There are some rules about how to work out which tax period your GST amounts belong to, that is, which tax periods they are attributed to. The rules for **attributing** GST payable and input tax credits to tax periods are different, depending on whether you account for GST on a cash basis or accrual basis.

To determine what method of accounting you currently use, look at your invoicing procedures and when you record payments and sales. If you issue or receive an invoice but do not account for the sale or purchase until the cash is received or paid, you are using a cash basis. If you account for the sale or purchase at the time you issue or receive an invoice, you are using an accrual basis.

Cash Accounting Turnover Threshold

The cash accounting turnover threshold is $1million. Organisations with an annual turnover exceeding $1million **must** account for GST on an accrual (non-cash) basis. Organisations with an annual turnover less than $1million may **choose** whether to account for GST on a cash or on an accrual basis.

There are some exceptions to this rule, including for charities.

Charities may choose regardless of turnover

Any charitable institution, any trustee of a charitable fund or any gift-deductible entity may choose to account for GST on a cash basis, whether or not its annual turnover exceeds the cash accounting turnover threshold. **Most church entities will be charitable institutions** (see Chapter 9).

Many of these entities currently will be using cash accounting. They may wish to consider whether the time of introduction of new concepts and arrangements for taxation is the best time to learn about the intricacies of accrual accounting. They may wish to account for GST on a **cash basis** unless:

- They are currently using accrual accounting; and/or
- There is a significant cash flow advantage for the entity in accounting for GST on a non-cash basis and the entity has the administrative capacity to account in this way.

Cash flow implications

If you are a net remitter of GST to the ATO you may obtain a cash flow benefit by accounting on an cash basis.

If you are a net claimant for input tax credits you may obtain a cash flow benefit by accounting on a accrual basis.

Professional advice

In most cases the simplest method will be to account for GST on a cash basis. However if you already prepare your accounts by the accrual method you may wish to continue on this basis.

If contemplating a change of accounting method it is recommended that professional advice be obtained.

19.2 Cash Basis

Am I currently accounting on a cash basis?
Cash accounting recognises income and expense as receipts and payments, that is, when money is received or paid out.

To determine what method of accounting you currently use, look at your invoicing procedures and when you record payments and sales. If you issue or receive an invoice but do not account for the sale or purchase until the cash is received or paid, you are using a cash basis.

Many church entities will currently be using cash accounting.

If you use a cash basis of accounting you account for the GST payable when you receive payment for a taxable supply, and claim input tax credits (refunds of GST you have paid) when you actually pay for acquisitions. In other words, you cannot claim an input tax credit until you have paid for the goods and services, and you do not have to pay the ATO the GST included in the price of a supply until you receive payment for that supply.

Liability to remit GST
Liability to remit to the ATO the GST you have collected arises only when the payment is received.

Right to claim an input tax credit
The right to claim an input tax credit from the ATO arises when a payment is made and a tax invoice is held.

19.3 Accrual Basis

Am I currently accounting on an accrual basis?
Accrual accounting recognises income as it is earned and expenses as the goods or services are used. Generally this does not correspond with the timing of receipts and payments.

To determine what method of accounting you currently use, look at your invoicing procedures and when you record payments and sales. If you account for the sale or purchase at the time you issue or receive an invoice rather than when you make or receive payment, you are using an accrual (non cash) basis.

Generally larger entities use accrual accounting, but this is not always so.

If you do not use a cash basis you will account for **all** GST payable and **all** input tax credits in the earlier of:

- The tax period in which a tax invoice is issued relating to that supply; or
- The tax period in which any of the consideration is received or made.

Liability to remit GST
Liability to remit to the ATO the GST you have collected arises at the time of the transaction (when the invoice is issued), not when the payment is received.

Right to claim an input tax credit
The right to claim an input tax credit from the ATO arises when you receive the goods or services and a tax invoice is held.

20. Reporting to the Australian Taxation Office (ATO)

20.1 Tax Periods

An entity which has registered for GST will report its tax entitlements and obligations on a new single form called a **Business Activity Statement (BAS)** (see Chapter 20.4).

You will claim input tax credits and account for GST payable on your BAS at the end of each **tax period**. Tax periods are monthly or quarterly. You will need to decide which tax period you wish to use before you register for The New Tax System.

Tax periods are the reporting periods for GST and can be monthly or quarterly. Quarterly tax periods are periods of three months ending on 30 September, 31 December, 31 March and 30 June. Monthly tax periods end on the last day of each calendar month.

The tax period turnover threshold

Monthly tax periods are compulsory if your annual turnover is $20 million or more.

If your annual turnover is less than $20 million, you generally have quarterly tax periods. However you may choose to have monthly tax periods. Church entities may wish to consider this option if the cash flow implications for the entity are significant.

If you are a net remitter of GST to the ATO (ie. if the GST received on sales and services is greater than the GST paid on acquisitions) you may benefit by reporting on a quarterly tax period basis.

If you are a net claimant of input tax credits (ie. If the GST paid on acquisitions is greater than the GST received on sales and services), you may obtain a cash flow benefit by reporting on a monthly tax period basis.

Professional Advice

In most cases the simplest method will be to account for GST on a quarterly basis. However if you already prepare your accounts on a monthly basis you may wish to complete a business activity statement for each accounting cycle.

If contemplating a change of accounting method it is recommended that professional advice be obtained.

20.2 Quarterly Reporting

General Rule

The general rule is that you have quarterly tax periods unless:

- You exceed the tax period turnover threshold ($20million per annum); or
- You choose to have monthly tax periods.

Period end dates

Quarterly tax periods are the three month periods in any year ending on the following dates:

- 31 March;
- 30 June;
- 30 September;
- 31 December.

Reporting dates

The due date for lodgment of your BAS is the 21st day of the month following the end of the quarter. In respect of the tax periods in the previous section, BAS must be lodged on or before:

- 21 April;
- 21 July;
- 21 October;
- 21 January.

20.3 Monthly Reporting

Determination of One Month Tax Periods

The Taxation Commissioner must determine that the tax periods that apply to you are each individual month if:

- Your annual turnover exceeds the tax period threshold ($20 million per annum); or
- You will be carrying on an enterprise in Australia for less than three months; or
- You have a history of failing to comply with tax law obligations; or
- Your income year is not the same as the financial year (that is, does not end on 30 June).

Note: If you are a charity (as most Church entities will be) and your income year does not end on 30 June, you will **not** be required to have monthly tax periods.

Election of One Month Tax Periods

If your turnover is less than $20 million per annum you may still choose to have one month tax periods.

Your tax periods will be each individual month if you so notify the Tax Commissioner on the approved form. Your election to have monthly tax periods takes effect on the day that you specify in the notice. However the day specified must be 1 January, 1 April, 1 July or 1 October.

You can withdraw an election to have monthly tax periods but not for at least 12 months.

Cash Flow Effect

For discussion of the cash flow effect of monthly reporting see Chapter 20.

Period End Dates

Monthly tax periods are each calendar month ending on the following dates:

- 31 January;
- 28 February;
- 31 March;
- etc.

Reporting Dates

The due date for lodgment of your Business Activity Statement is the 21st day of the month following the end of the monthly tax period. In respect of the tax periods in the previous section, Business Activity Statements must be lodged on or before:

- 21 February;
- 21 March;
- 21 April;
- etc.

20.4 Business Activity Statement

An entity which has registered for GST will report its tax entitlements and obligations on a new single form called a **Business Activity Statement (BAS)**.

You will claim input tax credits and account for GST payable on your BAS at the end of each tax period.

The difference between the GST which you charge on your supplies to others and the GST included in the purchase price of your acquisitions is the amount that you owe to or are owed by the ATO. You pay amounts owing to the ATO when you lodge your BAS. If your credits are greater than the amount of GST payable, you will be entitled to a refund.

Payments and Refunds of GST

The amount you have to pay to the ATO is the difference between:

- The GST you include in the price of sales you make; and
- The input tax credits you are entitled to for GST included in the price paid on things used in your organisation;
- This amount has to be paid on or before the 21st day of the month following the end of your tax period. You pay the amount when you lodge your BAS.

If the amount of input tax credit owed to you is greater than the GST on your sales, you will receive a refund. The ATO must pay this amount within 14 days of you lodging your BAS. The ATO will pay you by direct credit into your bank account.

Pay As You Go (PAYG) Withholding

When you lodge your BAS you also account for amounts of tax which you have withheld from employees and unregistered persons whom you have paid.

Lodgment

You can lodge your BAS on the pre-printed form supplied by the ATO or you can lodge it electronically using the internet.

Electronic Lodgment Threshold

If your annual turnover is greater than $20 million per annum then you must lodge electronically.

> **Professional Advice**
>
> In most cases the simplest method will be to account for GST on a quarterly basis. However if you already prepare your accounts on a monthly basis you may wish to complete a BAS for each accounting cycle.
>
> If contemplating a change of accounting method it is recommended that professional advice be obtained.

A copy of a **DRAFT** BAS follows:

Maddy and Maxie Pty Ltd
Shop 4
12 Cara St
ABLEM WA 6999

When completing this form please use a BLACK pen only.

30510200

Document identification number
A1 10 124 124 124

Australian Business Number
A2 97 999 999 999

Period covered by this statement
from A3 01/07/2000 to A4 31/07/2000

This statement is due on
A5 21/08/2000

Amount payable is due on
A6 21/08/2000

DRAFT

Business Activity Statement

Use the *Business Activity Statement Instructions* to complete this form.

Show whole dollars only.

DEBITS			CREDITS		
Goods and services tax payable	1A	$	Credit for goods and services tax paid	1B	$
Wine equalisation tax payable	1C	$	Wine equalisation tax refundable	1D	$
Luxury car tax payable	1E	$	Luxury car tax refundable	1F	$
			Credit for wholesale sales tax	1G	$
Add 1A + 1C + 1E	2A	$	Add 1B + 1D + 1F + 1G	2B	$

2A minus 2B GST net amount 3 $ — *If the result is positive, this is your net amount of GST. If the result is negative, this is your net amount of GST credit.*

Pay As You Go withholding 4 $ 5224

Add 2A + 4 8A $ 5224

8A minus 2B Net amount for this statement 9 $ 5224 — *If the result is positive, the amount is payable to the ATO. If the result is negative, the amount will be refunded to you or offset against any other tax debt you have.*

Declaration:
I declare that the information given on this form is accurate and complete, and that I am authorised to make this declaration. The tax invoice requirements have been met.

Signature M.Hancox *Date* 16/08/00

Please return this completed form to
Australian Taxation Office
Private Bag 6007
ALBURY NSW 2640

Please provide an estimate of the time taken to complete this form.
hrs mins

The ATO is authorised by the tax laws to collect this information to administer those laws and may pass information to other government agencies.

NAT 3051-3.2000

Australian Taxation Office ATO

PAYMENT ADVICE - 60

0000 0156 03

97 999 999 999

Maddy and Maxie Pty Ltd

$ 5,224

Australian Taxation Office
Private Bag 6007
ALBURY NSW 2640

EFT code 97999 999 999 9360

<97999999999> < > < 000000> 15600< >

DRAFT Ð Calculation Sheet – Show whole dollars only.

Goods and services tax Ð quarterly cycle on record Ð details not required for this period

Supplies you have made

GST accounting method Non-cash (accruals)

Total sales & income & other supplies	G1	$
GST-*free* supplies: Exports	G2	$
GST-*free* supplies: Other GST-*free* supplies	G3	$
Input taxed sales & income & other supplies	G4	$
Add G2 + G3 + G4 This is the total of your GST-*free* and input taxed supplies.	G5	$
G1 minus G5 This is the total of your taxable supplies.	G6	$
Adjustments	G7	$
Add G6 + G7 This is the total of your taxable supplies after adjustments.	G8	$
Divide G8 by eleven	G9	$

The amount at G9 is your GST pay able, transfer this amount to 1A on the front.

Acquisitions you have made

Amounts at G1, G7, G10, G11, G13, G15 & G18 are GST-inclusive.

Capital acquisitions	G10	$
Other acquisitions	G11	$
Add G10 + G11 This is the total of your acquisitions.	G12	$
Acquisitions for making input taxed sales & income & other supplies	G13	$
Acquisitions with no GST in the price	G14	$
Total of estimated private use of acquisitions + non-income tax deductible acquisitions	G15	$
Add G13 + G14 + G15 This is the total of your non-creditable acquisitions.	G16	$
G12 minus G16 This is the total of your creditable acquisitions.	G17	$
Adjustments	G18	$
Add G17 + G18 This is the total of your creditable acquisitions after adjustments.	G19	$
Divide G19 by eleven	G20	$

The amount at G20 is your GST credit, transfer this amount to 1B on the front.

Pay As You Go withholding for the period 01/07/2000 to 31/07/2000

Total of salary, wages and other payments	W1	$ 15731
Amounts withheld from salary, wages and other payments	W2	$ 4487
Amounts withheld from investment distributions where no TFN is quoted	W3	$
Amounts withheld from payment of invoices where no ABN is quoted	W4	$ 737

Add W2 + W3 + W4 and write the amount at 4 on the front.

Aust Post Use

Payments can be made by direct credit; BPAY; direct debit; at Australia Post or by mail. For details refer to your activity statement instructions.

Notes

21. Systems

Appropriate systems are the key to managing the GST.

The systems that are in place in Catholic Church organisations range from sophisticated computer systems to basic hand written records. Depending on the size and nature of the organisation, some systems will produce only basic accounting data, whereas others will produce comprehensive management reports.

The introduction of GST provides an opportunity for all Catholic Church organisations to review their current systems. This review should not just focus on accounting for GST; it should also consider how the information that is required for GST compliance purposes can be captured and used to assist in the effective management of the organisation.

A structured reporting system reduces room for error and enables the users to have a greater level of confidence in the accuracy and usefulness of the information.

Accounting for GST will be a relatively simple matter if time is taken before its introduction to develop and install the appropriate systems.

The purpose of this material is to provide some guidance in this area.

21.1 What is a System?

A system is a series of processes which provide timely, relevant and accurate information that enable your organisation to make informed decisions.

For a system to be effective, the procedures should be documented and performed consistently throughout an organisation. For example:

Systems for wages

- Employees are paid correctly for the hours they work;
- Pay rates are monitored to ensure that they are in line with market rates and legislated levels;
- Tax deductions and FBT are paid on time under the new PAYG system; and
- Leave entitlements are correctly calculated and recorded.

Regardless of what the system is used for, the following features should always be evident:

- The system needs to have a defined purpose;
- The system must be managed in a methodical way;
- The processes need to be completed in a timely manner; and
- The system needs to have checks and balances in place.

Although not all the systems that exist in organisations are documented, those that are vital to the continuing operation should be. They should not only be documented but, equally as important, the documentation should be kept up to date.

Documenting systems enables the procedures to be easily followed and allows your organisation to incorporate changes and new procedures.

Checks and balances are required in every system to make sure that the information generated is valid. Checks and balances are essential to preserve the integrity of the information. They are also needed to ensure that the systems are applied consistently.

21.2 Why are Systems Important?

The importance of systems cannot be underestimated when it comes to effectively running your organisation.

The systems in your organisation need to be clearly understood by all those who contribute to the administration of the organisation. Documentation of systems supports and reinforces this aim.

Systems are important to ensure that your organisations and any affiliated bodies, operate effectively.

A good management system should:

- **Assist in making informed decisions;**
- **Adapt to any changes;**
- **Give procedural guidelines to staff ;**
- **Protect staff health and safety by providing a safe working environment; and**
- **Provide relevant, accurate and timely information as required.**

Good management systems are particularly important in a GST environment given the reporting requirements and deadlines imposed by the law and the penalties that can be imposed by the ATO for non-compliance.

21.3 Why do Systems Change?

All organisations, including those of the Catholic Church, need to cope with constant change. These changes come in many different forms. Some of these are the result of technology, for example, e-mail; other changes are the result of changes in personnel or legislation.

The environment in which Catholic Church organisations are operating today is constantly changing. The changes associated with the introduction of GST are typical of the environmental changes your organisation is facing. Changes of this type require organisations to constantly update their management systems.

Organisations with good systems and a willingness to adapt will have a greater chance of avoiding problems and taking advantage of the opportunities that the changing environment may provide.

Where you cannot avoid change, make change work to your advantage.

Often where there are poor systems in place, it is left to one person to accept responsibility for ensuring that all activities are undertaken in an efficient manner and that appropriate records are kept. Introducing, operating and maintaining effective systems provides a tool to enable the “hands on manager” to delegate responsibilities, but still have confidence that the organisation will continue to operate efficiently and effectively.

Maybe your organisation has no documented systems for the day to day running and changes to procedures are generally made on a reactive basis. This can result in changes being made on an ad hoc basis and this is not always effective or efficient.

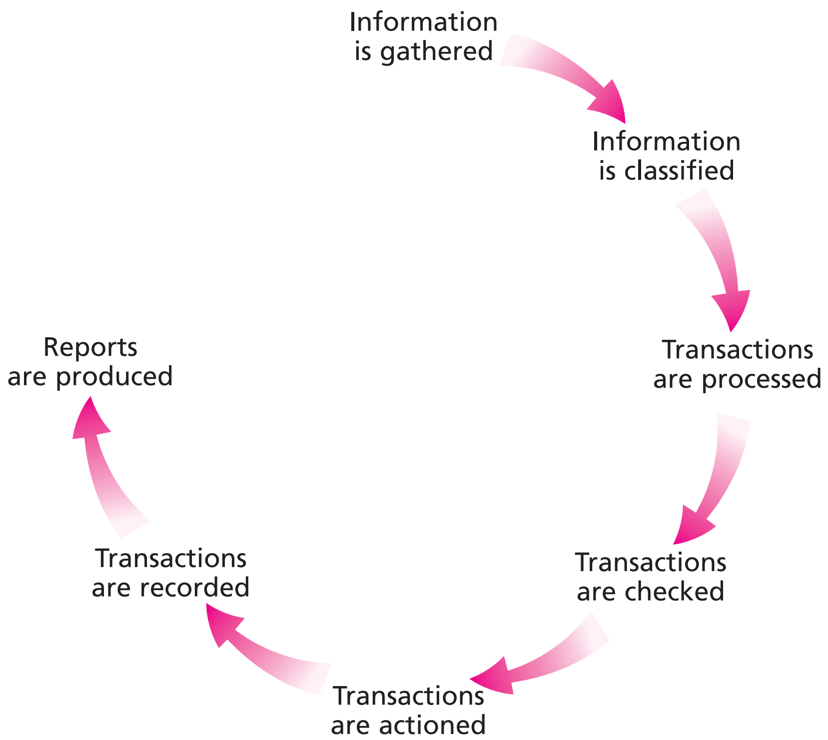
When changes are made to systems or new systems are developed, it is essential to ensure that the information the system provides is of greater benefit to the organisation than the information previously available.

If the systems are inadequate, people may still operate the organisation reasonably well. However if procedures are formalised by setting up documented systems, the situation can be improved substantially through the provision of appropriate information to improve the effectiveness of their decisions.

21.4 The Operations Cycle

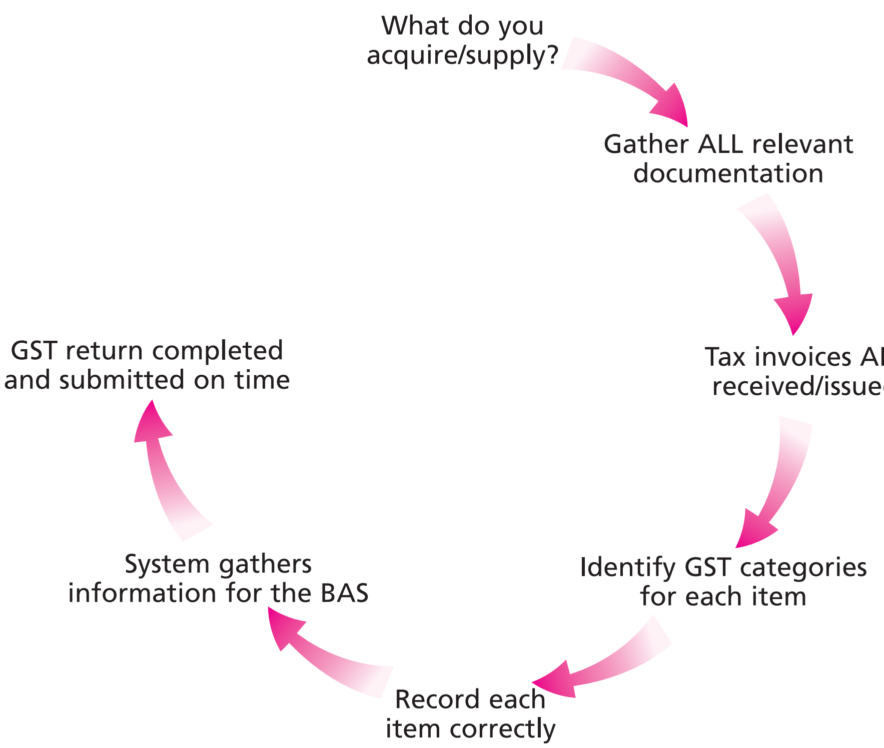
The operations cycle diagrammatically demonstrates the way information flows through a Catholic Church organisation and how that information can be used to produce relevant reports on organisational performance.

The operations cycle



The introduction of GST on 1 July 2000 will impact on Catholic Church organisations and their operations. The systems already in place need to be adapted to deal with GST at every stage of the operations cycle.

The cycle for GST



Notes

22. Systems and Staff

In looking at different activities, measuring the performance of these activities and reporting, it is very important not to overlook the people involved in the activities. This is also very important when systems to deal with GST are being developed. It is vital to recognise that many people within your organisation are likely to be affected by GST, and they will have a role to play. This will depend on the activity they are involved in.

Staff will need to:

Outflows (selling)

- Understand that the prices of all goods for sale are to be stated as 'GST inclusive';
- Recognise transaction types and the GST consequences, that is whether the sale is a taxable supply or is GST-free, at the point of sale;
- Know the rules for issuing a tax invoice; and
- Understand the correct procedures for refunds, issuing credit notes and adjustments.

Inflows (buying)

- Understand the classification of each transaction for GST purposes; taxable supplies, GST-free supplies or input taxed supplies;
- Know the GST status of suppliers (unregistered, ABN registration, or GST registration) before ordering;
- Know how to deal with cash purchases including the GST component;
- Know how to record payments made by cheque or cash including GST;
- Know to obtain tax invoices for all goods or services acquired, which cost in excess of $50 + GST;
- Know to obtain cash receipts for all goods and services acquired, which cost less than $50 + GST; and
- Understand and follow the procedures for filing and recording tax invoices.

In addition, office staff will need to:

- Understand the GST status of each transaction processed, that is, taxable supplies, GST-free supplies or input taxed supplies;
- Know how to issue appropriate tax invoices for goods or services provided by the organisation, reconciling total taxable supplies, GST-free supplies or input taxed supplies with the total invoices issued;
- If using a cash based system, ensure bank deposits are analysed into taxable supplies, GST-free supplies, and input taxed supplies;
- Know how to account for credit card transactions;
- Understand how to process tax invoices received from creditors;
- Know how to deal with adjustment notes, credit notes, and refunds;
- Understand and follow the rules for reconciling all the accounts; and
- Understand the attribution rules which determine the tax period in which a transaction is accounted for, for GST purposes.

Educating Staff

In modifying or developing systems to record and account for GST the procedures that are developed and put in place must be user friendly. These procedures must be in a form that enables staff to follow them without being technical experts in GST.

Adequate training of staff must be provided to assist them in gaining an understanding of how the GST operates, and what effect the GST will have on the operations of the organisation and their roles within the organisation. They must then be trained in the systems in place in your organisation to manage the GST.

A crucial risk management procedure is to ensure that all staff are adequately trained.

In developing the procedures the following factors must be taken into account:

- The Chart of Accounts needs to be suitably modified to classify the various types of supply made and acquired: GST supplies, GST-free supplies, and input taxed supplies, by activity where appropriate;
- Setting up procedures to ensure that source documents, discussed in Chapter 23, will be coded correctly to indicate the GST status of all supplies made or received;
- Ensuring that documentation issued by the organisation complies with the tax invoice and adjustment note requirements and facilitates accurate recording;
- Reviewing current procedures to ensure that the debtors and creditors records capture and classify GST information in an efficient and effective manner;
- Ensuring cash flow management procedures are adequate to cope with the impact of GST;
- Ensuring that relevant totals can easily be obtained from the system for entering on the BAS, either from a computerised or a manual recording system;
- Ensuring that staff understand and can apply the attribution rules; and
- Reviewing procedures to ensure that records are kept up to date at all times to enable the completion of the BAS within 21 days of the end of each tax period.

23. GST Systems

As with any change current systems need to be reviewed and new processes and procedures put in place to adapt to the introduction of GST and the entire PAYG system.

Steps should be taken to:

- Identify your organisation's activities;
- Classify these activities into GST transaction types;
- Identify your organisation's information and reporting systems;
- Identify the ATO requirements for reporting - the requirements of the BAS; and
- Adapt the system to fit these requirements - the Chart of Accounts and the records produced.

Systems will need to be updated to cope with transaction types that have different GST consequences. This could occur for both income (receipts) and expenses (payments), including capital transactions.

23.1 Supplies & Acquisitions

The first step for a Catholic Church organisation in preparing its systems for the introduction of GST is to identify the supplies it makes and the supplies it acquires.

The identification of the various goods and services of a Catholic Church organisation is essential in deciding what changes are required to the current systems.

In undertaking an identification of the supplies made by your organisation, it will be necessary to consider all of the various activities undertaken by the organisation. A good starting point is the latest set of financial statements.

Supplies made by a Catholic Church organisation include:

- The provision of religious ceremonies/ services;
- Sales of goods, both donated second-hand goods and new goods;
- Sales of newsletters, magazines, books and candles;
- Hire of facilities;
- Rent of property;
- Collections; and
- Donations.

Acquisitions by a Catholic Church organisation include:

- All goods and services such as stationery, electricity and telephones; and
- Capital acquisitions including buildings and equipment.

23.2 GST Status of Transactions

Different activities have different GST consequences.

The need to identify the different activities for GST purposes is essential to enable the transactions connected with that activity and the GST consequences to be recorded appropriately.

The supplies of your organisation will fall into the three main GST supply categories, being, **taxable supplies, GST-free supplies and input taxed supplies** (Refer to Chapter 8 for detail on supply categories; refer to Chapter 11 for a detailed analysis of church transactions.)

Taxable supplies made by a Catholic Church organisation might include:

- The receipt of a capital grant;
- Rent of commercial premises;
- Sale of assets and commercial property;
- Hire of facilities; and
- Donations received for a specific purpose.

Taxable supplies acquired by a Catholic Church organisation
These might include:

- All goods and services such as stationery, electricity and telephones; and
- Capital acquisitions including buildings and equipment.

Input taxed supplies acquired by a Catholic Church organisation

These might include:

- Interest earned on investments.

Input taxed supplies made by a Catholic Church organisation

These might include:

- Residential accommodation provided at full market rate.

GST-free supplies made by a Catholic Church organisation

These might include:

- Collections;
- Religious ceremonies;
- General donations;
- Piety stall sale of second hand donated goods where the goods retain their original character; and
- Piety stall sale of new purchased goods where the goods are sold for less than 75% of the purchase cost or 50% of the GST inclusive market value.

Each of the activities undertaken by a Catholic Church organisation will have its own GST issues.

Child care

In certain circumstances the supplies of the childcare facility will be GST-free. This means they are not required to charge GST to the parents but can still claim the GST on their expenses and purchases. Again separate analysis of the income and expenditure of this facility will assist when the time to complete the BAS arrives.

Retail operations

Where a Catholic Church organisation sells new books, clothing or similar items, all of the sales will be subject to GST unless they are sold for less than 75% of the purchase cost or 50% of the market value.

The sale of second-hand goods that have been donated to the organisation may be sold without charging GST if they have not been altered in any way between the time of acquisition and subsequent resale.

Donations and Grants

This area is very important but is a complex one for Catholic Church organisations. It would be advisable to seek advice as soon as possible from your Diocesan or Congregational contact, the ATO or a professional adviser.

Generally when your organisation receives a donation or a grant for a specific purpose this supply may attract GST, and 1/11th of the supply must be remitted to the ATO. On the other hand, if a donation or grant is unconditional, no GST would be payable.

Example:

The parish receives a government capital grant to build a refuge for homeless men:

Total Grant	$550,000
GST (1/11th)	$50,000
	$500,000

23.3 Source Documents

To provide GST information for completion of the BAS, the system, whether manual or computerised, will utilise the following source documents:

- Tax invoices received from suppliers;
- Tax invoices issued by your organisation;
- Bank statements/ bank reconciliations/ cashbooks;
- Ledgers, and other summarised information;
- GST calculation sheets;
- Adjustments worksheets; and
- Guides and industry specific booklets dealing with GST and the PAYG system.

Source documents are the documented evidence that your organisation accumulates when it processes transactions. This evidence needs to be kept in a form and manner that facilitates easy retrieval. Therefore, you must ensure that your existing filing system allows this, and if not, change that system.

For example, your organisation is unable to claim an input tax credit for GST paid on an acquisition unless a tax invoice is held. Therefore, it will be appropriate to file tax invoices to coincide with the GST tax period in which the input tax credit was claimed.

Examples of source documents

- Cheque butts
- Deposit slips
- Bank statements
- Tax invoices (from suppliers and issued by your organisation)
- Pay slips
- Receipts
- Purchase Orders
- Credit notes
- Expense claim forms
- Quotations
- Petty cash vouchers

Why do we keep source documents?

We keep source documents to provide the information needed to produce accurate reports for use by management. In addition to this function they provide the evidence needed to prove that the organisation is entitled to a refund of the GST it has paid or, conversely, how much GST it needs to pay to the ATO.

Controls need to be in place to make sure the system achieves this purpose:

- Use standard source documentation that suits your organisation and complies with legislation;
- File it in a logical and ordered way, consistent with the systems used; and
- Ensure **everybody** understands the need for and use of the source documents.

Documentation generated by your organisation

Your systems need to be designed to produce documentation that complies with the GST law, and that can be produced when required.

In particular, the GST law dictates what information a tax invoice must contain, refer Chapter 23.3.2 for further information. Also, tax invoices must be produced within 28 days of one being requested.

Review source documents at time of transaction

Take time when the source document is created or received to ensure all relevant information is recorded correctly.

The more accurate and detailed the source documents are, the more useful they become, allowing more information to be held in one place. Where possible source documents should be cross-referenced to provide additional detail if required.

Retention of documents

Under legislation source documents need to be retained for certain periods of time. The following records must be kept for five years:

- End of financial year records such as stocktake sheets, creditors lists, debtors lists and depreciation schedules;
- Receipts for supplies including cash register Z-tapes, receipts, deposit books and bank statements;
- Acquisition and expense records including payment records, invoices and statements, receipts, cheque butts and log books; and
- Wages records including worker payment records, employment declarations, PAYE employer's payment books and superannuation records.

23.3.1 Tax Invoices

The Tax Invoice is the Cornerstone of GST.
As noted earlier your organisation may not only issue tax invoices, but will also receive tax invoices from suppliers. Your organisation will be able to claim back the GST included in most of these invoices if you hold a tax invoice. Therefore, you will need to ensure that you receive invoices from your suppliers that meet the legal requirements for tax invoices. In addition, the coding, recording and processing of those invoices becomes very important to ensure the GST is treated correctly in your accounting records which will allow the production of accurate information for reporting to the ATO.

The tax invoice is the single most important source document in any GST system. Procedures to ensure tax invoices are correctly issued, and recorded and filed appropriately, are crucial in a GST environment. The requirements of a 'tax invoice' are an extension of information normally appearing on an invoice. You need to design a tax invoice for your organisation that complies with the legislation and confirm that your suppliers' tax invoices comply with the legislation.

Only suppliers registered for GST must issue tax invoices. Unregistered suppliers do not charge GST, are not required to issue tax invoices. If you make a purchase from an unregistered supplier you are not entitled to claim input tax credits for those acquisitions.

Tax Invoice Checklist

For the preparation of the BAS there are certain details that need to be shown on invoices issued by your organisation for both credit and cash transactions. The information required on a tax invoice varies in accordance with:

- ▲ The amount of the supply;
- ▲ The GST status of the supplies made. Specifically, there needs to be a split between taxable supplies GST-free supplies and input taxed supplies; and
- ▲ Who initiates the tax invoice - the supplier, as in most cases, or the recipient of the supply.

OVER $50 TO $1,000 - WITHOUT GST	OVER $1,000 - WITHOUT GST
The supplier's ABN number	The supplier's ABN number
GST inclusive price of the supply	GST inclusive price of the supply
Shown prominently the words "Tax Invoice"	Shown prominently the words "Tax Invoice"
Issue date of the tax invoice	Issue date of the tax invoice
Name of the Supplier	Name of the Supplier
Brief description of each item supplied	Brief description and quantity of each item supplied
If the GST is 1/11th of the total price either indicate the total includes GST or, the amount of GST	If the GST is 1/11th of either, indicate the total includes GST or the amount of the GST
	The ABN number or address of the receiver The name of the receiver

With tax invoices it is not necessary to show the GST component as a separate item unless the GST is less than 1/11th of the total. However you may wish to design your tax invoices showing the GST separately to facilitate record keeping both for yourself and your client. If the GST component is less than 1/11th of the total price the GST amount must be shown separately so that your client is able to identify the amount of GST that has been included.

A tax invoice is not required for supplies with a value of less than $50, without GST. However, your organisation is entitled to claim an input tax credit for the GST paid on creditable acquisitions. Therefore, some documentary evidence of such purchases must be kept, such as purchase orders, receipts, and cheque butts.

Requirements for Supplies

If a tax invoice is for a taxable supply and a GST-free or input taxed supply, the tax invoice must also show:

- Each taxable supply and the amount of GST payable; and
- The total amount payable for the supply.

If your organisation issues invoices for mixed supplies you may consider issuing separate invoices for the different types of supply. This may facilitate information capture.

When designing the tax invoices for use by your organisation, consider:

- Designing one tax invoice to be used for all supplies regardless of amount. The design would need to include all the information required on a tax invoice for an amount greater than $1,000, and would need to disclose separately the GST for each class of items supplied; and
- Obtaining advice from your Diocesan or Congregational contact.

Get the tax invoice issues right and you are well on the way to dealing with GST (see following pages).

Recipient Created Tax Invoices (RCII)

Generally tax invoices are issued by the supplier of the goods or services. However, the GST Legislation allows the recipient of a supply to issue the tax invoice in certain circumstances.

RCIIs can be issued by recipients of taxable supplies who are registered for GST when:

- The supply is a taxable supply of agricultural products and the recipient determines the value of the supply;
- The recipient of the supply is a Government entity and certain requirements are satisfied; and
- The recipient of the supply has an annual turnover, including input taxed supplies, of at least $20 million, and certain requirements are satisfied.

In most cases, Church entities will not be required to issue RCIIs. However, seek assistance from your Diocesan or Congregational Business Manager, a professional advisor or the ATO if needed.

23.3.2 Bank Statements

The bank statement provides the link between the inwards and outwards transactions of an organisation. It shows the deposits made, interest earnt, cheques issued and automatic payments made.

The bank statement provides the first opportunity to reconcile the payments and receipts you thought you made, against what has actually happened. This is particularly important when there are automatic payments and direct deposits into the account.

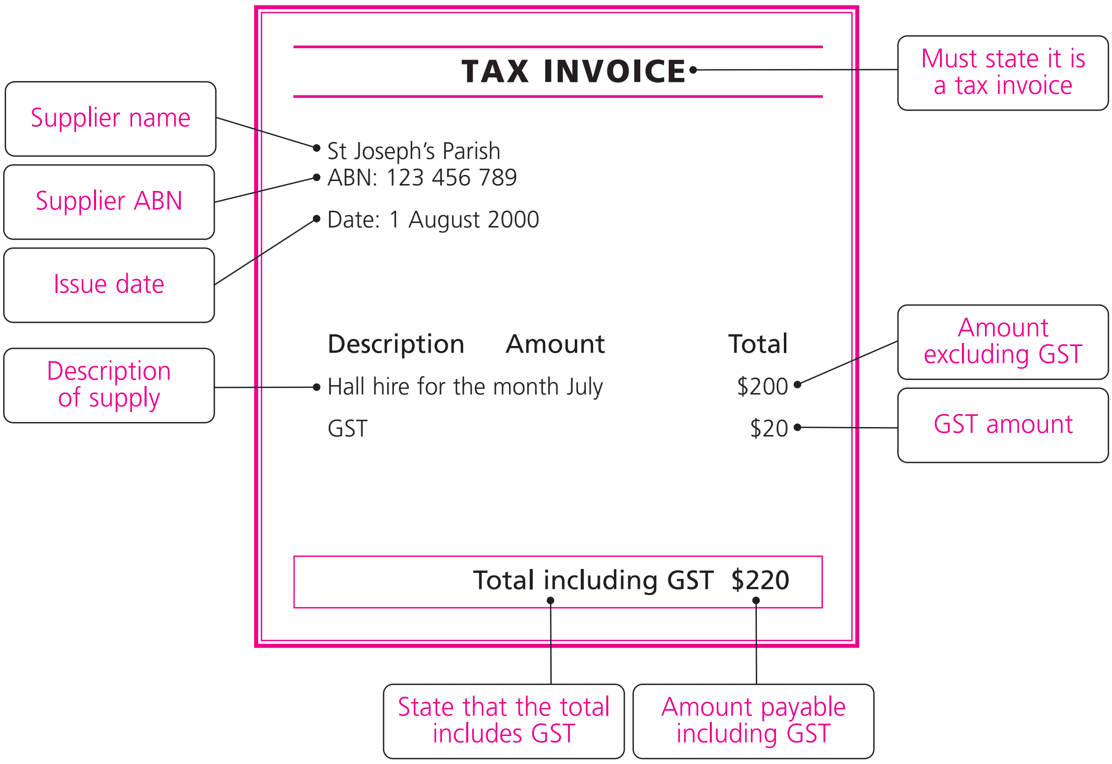
Some organisations may find that each major activity undertaken is more easily accounted for when each activity operates its own bank account. This allows the source documents for each to be easily identified, collated, analysed and reported on.

Rules of thumb for bank statements:

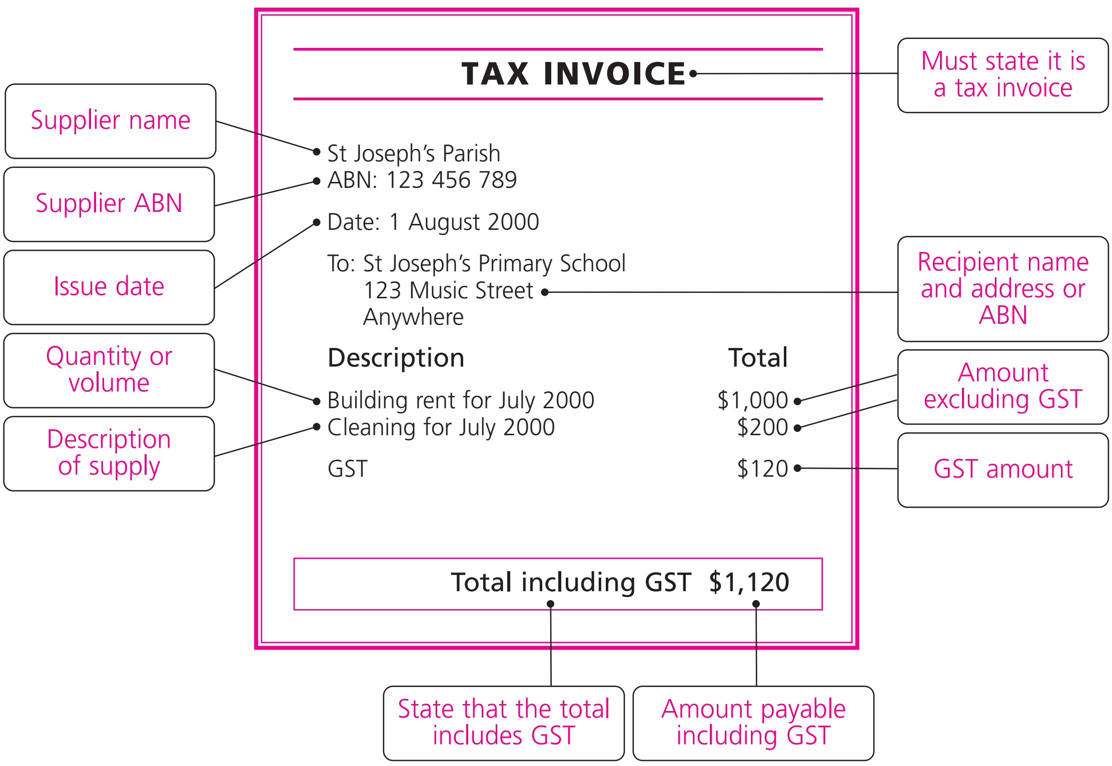
- Keep them all for at least five years;
- Keep the statements for each bank account separate;
- File in date order; and
- Complete a bank reconciliation on each bank account at monthly intervals, regardless of the GST tax period of your organisation.

Sample Tax Invoices

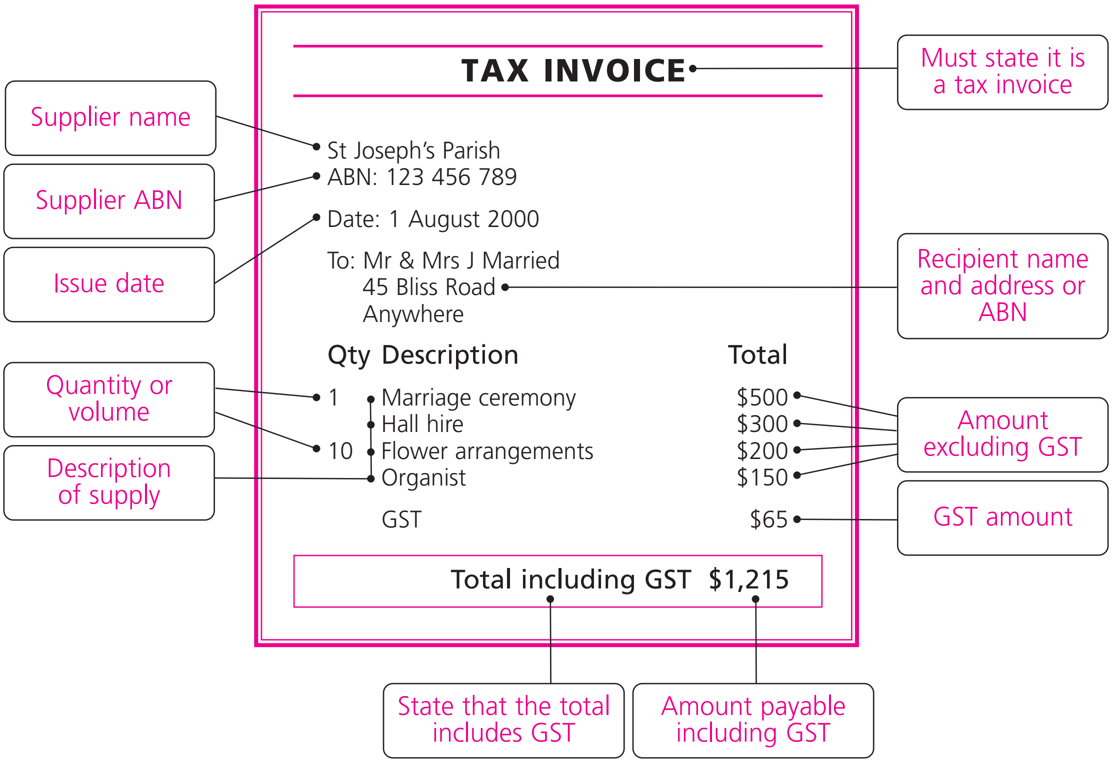
For transactions with values over $50 & under $1,000



For transactions with values over $1,000



For mixed supply transactions with values over $1,000 – Taxable and GST-free



23.4 Adjustments

Adjustments are changes you may need to make on your BAS to change your net GST amount payable or refundable as the result of an adjustment event.

An adjustment event is any event which has the effect of:

- ▲ Cancelling a supply or acquisition;
- ▲ Changing the consideration for a supply or acquisition;
- ▲ Causing a supply or acquisition to become, or stop being a taxable supply or creditable acquisition.

Provision must be made in your system for adjustments to transactions which have a GST component. Your system must have controls which identify when an adjustment has arisen. Also your system must produce Adjustment notes when required that comply with the GST legislation.

There are many types of adjustment which will affect GST your organisation has already paid to, or been refunded by, the ATO.

Adjustments will arise if:

- ▲ All or part of a supply or purchase is cancelled;
- ▲ The price of a supply or purchase is altered. For example, where you are entitled to a volume or early payment discount;
- ▲ There is a change to the purpose of a purchase. For example, a microwave purchased for the office is moved to the residence for private use;
- ▲ You have a bad debt, or you fail to pay a debt; and
- ▲ A supply becomes taxable or stops being taxable.

Adjustments are reported on your BAS in the GST tax period in which the change happened and an adjustment note is held.

Credit notes and refunds

Credit notes and refunds need to be recorded for both financial reporting purposes and for GST reporting purposes. The effect on your organisation of receiving a credit note or refund is to decrease the input tax credit which can be claimed on that purchase. The effect on your organisation of issuing a credit note or refund is to decrease the GST payable to the ATO on that supply.

Bad debts

Bad debts are an issue for organisations registered on an accrual basis.

If your organisation is registered for GST on an accrual basis you are required to pay the GST on taxable supplies to the ATO regardless of whether payment has been received. Where a debt is unable to be collected and is written off, or is over a year old, your organisation will have paid the applicable GST to the ATO but will not have received the amount from the clients. Your organisation is entitled to make an adjustment for the GST overpaid to the ATO.

The system must have the capability to deal with bad debts to ensure that any bad debt adjustments are made. A system must indicate when a debt reaches one year old. Also, care must be taken to record any debt written off, and the GST subsequently claimed back, so that if it is ever received in the future, the GST claimed back is repaid to the ATO.

Transactions without a tax invoice

Some transactions undertaken by your organisation will not be eligible for an input tax credit claim because no tax invoice is held, even though the original acquisition was a taxable supply.

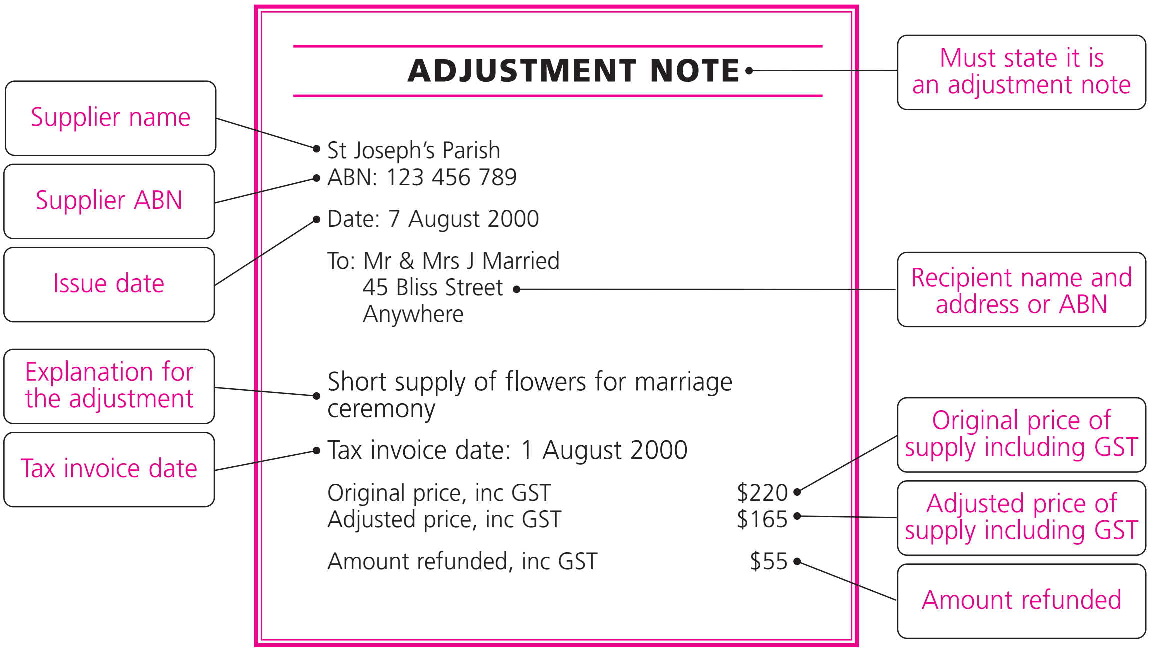
In these circumstances a claim cannot be made for the GST paid and an adjustment to the totals may be needed. A system needs to be in place to identify situations where tax invoices have not been received and to ensure that the correct adjustment is made to the claim in the relevant tax period. This also highlights the importance of obtaining a tax invoice from all your suppliers at the time of the relevant transaction.

One way of avoiding this type of problem, is to refuse to pay a supplier until a valid tax invoice is received.

If the relevant tax invoice is received in a subsequent GST period, the input tax credit can be claimed at that stage.

The purchase and sale of capital items may pose specific problems with tax invoices. This can apply to the purchase of land and buildings because invoices are not traditionally issued by the seller of a building. It may be wise to obtain professional advice in such cases.

Sample Adjustment Note


ADJUSTMENT NOTE

St Joseph's Parish
ABN: 123 456 789

Date: 7 August 2000

To: Mr & Mrs J Married
45 Bliss Street
Anywhere

Short supply of flowers for marriage ceremony

Tax invoice date: 1 August 2000

Original price, inc GST	$220
Adjusted price, inc GST	$165
Amount refunded, inc GST	$55

Note: When the next BAS is prepared, 1/11th of the amount refunded, $5 in this case, will be used to reduce the amount of GST payable.

Notes

24. GST Systems - Recording

You must record in your accounting systems the information from all of the source documents. Your method of recording information can be either in manual or computerised form. The usual place where all the information is collected is in the General Ledger. The Chart of Accounts determines the way in which transactions are recorded in the general ledger.

The first step is to design the Chart of Accounts to allow the appropriate recording of all the transactions of your organisation. Remember, your organisation will provide and receive a mixture of taxable supplies, GST-free supplies, input taxed supplies, and other supplies (if you are dealing with organisations or individuals that are not registered for GST).

Each tax period your organisation is entitled to a refund for GST paid on most of its acquisitions (refer to Chapter 11 for a detailed analysis), and is required to submit to the ATO any GST collected on taxable supplies (refer Chapter 11 for a detailed analysis). Therefore, it is important that you are able to isolate the GST content (if any) of each transaction that you record in your general ledger to make sure you record the maximum input tax claim available, as well as accurately calculate the GST collected by you on behalf of the ATO. This will involve the analysis of the source documents for each transaction and the recording of any GST amount to a separate GST account in the general ledger.

The information provided by the systems should enable you or your managers to make appropriate decisions about the organisation. In addition the systems should provide all the information needed to complete your BAS.

Therefore, when designing your Chart of Accounts you need to consider:

- What are the financial reporting needs of your organisation. Determine the reports required and the information each report needs to contain. Generally, the financial reports needed will include the Income and Expenditure Statement (Profit and Loss Statement), the Statement of Assets and Liabilities (Balance Sheet), Cashflow Statements, and Budget Reports;
- What information needs to be reported in the BAS (refer Chapter 20 for a detailed list); and
- Any restrictions arising from your choice of accounting system.

The Income and Expenditure reports used for the financial business decisions of the organisation will be GST exclusive if registered for GST. However, the figures entered on the GST portion of the BAS will be on a GST inclusive basis (this means the total price paid including GST). Therefore, the GST amount of a transaction should always be coded to a specific GST code in the general ledger (GST payable for GST on sales, and GST receivable for the GST on creditable acquisitions). The Chart of Accounts should be designed so these GST accounts are not Income and Expenditure accounts. GST payable is a liability account and GST receivable is an asset account.

The balance in the GST accounts in the general ledger (GST payable being GST received from clients, and GST receivable being GST paid to suppliers) should equal the GST refund, or the total GST payable to the ATO.

However, if an entity is not registered for GST any GST paid would be an expense item and the Chart of Accounts should reflect this situation.

Before designing your Chart of Accounts contact your Diocesan or Congregational administration.

24.1 Computer or Manual

If you are registered for GST it does not matter whether you use a computerised accounting system or a manual cashbook system. Both must be changed to ensure that all the information required for completing the BAS is available when required.

There are a number of computerised general ledger packages available which will have the capability to handle the introduction of GST.

When making the decision whether to adopt a computerised approach to record keeping, an organisation must ensure that:

- The benefits achieved will be greater than the costs incurred. Costs include the once off purchase of computer equipment and software together with ongoing operational costs;
- The software system purchased will suit the organisation, both management and staff, and its information needs;
- The software system will provide the information required to meet both the needs of the organisation and the ATO. Any software purchased should have ATO approval;
- It is well structured with supporting documentation that is easily useable; and
- The system is adaptable to cope with changes to future information needs.

If your organisation is currently operating a computerised system you still need to work through this range of issues to ensure that all activities and relevant transactions are accounted for, and can be reported on correctly for GST purposes.

A sample cashbook using a spreadsheet has been developed for parishes of the Archdiocese of Adelaide. This spreadsheet can easily be adapted to meet the specific needs of your organization. It is available from the Australian Catholic Church Tax Working Group website at *www.tax.thechurch.com.au.*

Before deciding on which accounting system to use or how to adapt your existing accounting system obtain advice from your Diocesan or Congregational contact.

24.2 Income & Expenditure

If your organisation accounts for GST on an accrual basis it is important that accurate debtors and creditors records are kept. These records are needed to accurately calculate the GST liability/refund at the end of each GST tax period.

The use of a creditors and a debtors systems allows your organisation to capture GST information in the system at the 'data entry' point. Therefore, your systems must be correctly designed to capture all the relevant information and to determine when this information has not been entered.

Income

Details that need to be recorded in your records in respect of each receipt of funds:

- **Date invoice issued by you or date of cash sale;**
- **Relevant details of receipt where no Tax Invoice is available (input taxed supplies);**
- **Total amount deposited; and**
- **Split between each category for GST purposes (where not already recorded in the debtors system).**

Expenditure

Your organisation will make payments by cheque, directly from the bank account, by credit card, or out of petty cash. Cash payments, including petty cash, should be kept to a minimum. The reason is to ensure that there is a permanent source document that can easily be referred to. Where cash payments must be made, a system needs to be in place to ensure they are correctly accounted for.

Details that need to be recorded in the system for each payment transaction:

- **Date of invoice and ultimately, date paid and cheque number;**
- **Supplier's name and details;**
- **Payment total;**
- **Identification of the type of supply; taxable, GST-free, or input taxed. Totals of each supply type to be accumulated as well; and**
- **The GST content of taxable supplies.**

24.3 Irregular Transactions

Your system needs to be able to deal with transactions that do not occur on a regular basis. These may include:

- The purchase of an asset by way of bank loans, or instalment credit terms;
- The trade-in of an asset on another; and
- A barter transaction.

In all these circumstances there is a GST effect.

- All GST registered entities can claim the full input tax credit on a financed asset as payment has been made to the supplier.
- When an old asset is traded in on a new asset, the GST legislation will require a two-part transaction to accurately record GST liability. The organisation that has traded the old asset can be regarded to have made a supply to the vendor of the new asset in return for consideration, the trade-in allowance. The sale of the new asset is clearly a supply for consideration, the full purchase price. The effects of this transaction are set out in the following example.

Example

A parish decided to upgrade a photocopier. After trading in the old photocopier the new photocopier would cost $5,700. The trade in value was $700.

The transaction is reflected as follows:

Trade in $700 GST supply made

Cheque paid $5,700

Photocopier $6,400 GST supply received

Your accounting system will need to record the supply of the old photocopier as a taxable supply, for a price if $700. Of this 1/11th is GST payable to the ATO.

Your accounting system will also need to record that a new photocopier has been acquired at a price of $6,400. Of this 1/11th will be able to be claimed back from the ATO as an input tax credit. A tax invoice must be obtained from the dealer for $6,400, and the organisation must issue

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25. GST Systems - Reporting

A key feature of any financial system is its ability to produce relevant and timely reports within the operational cycle. After 1 July 2000 an additional aspect of financial reporting will involve transactions attracting GST.

Ideally the financial system used should be able to produce reports which facilitate the completion of the GST portion of the BAS simply and efficiently. Remember that the BAS must be lodged with the ATO by the 21st day of the month following the end of your GST tax period (refer Chapter 20) or your organisation can be penalised by the ATO.

It is worth investing time now to ensure that the system can accumulate and report the correct information from 1 July 2000 to facilitate this.

In addition to the usual reports such as Statements of Assets and Liabilities, Income Statements, Budget Reports and Cashflow Statements, you will need to modify existing systems to accumulate the information required to complete the BAS under the following categories:

- Total supplies from all sources;
- Total taxable supplies made;
- Total GST-free supplies made;
- Total input taxed supplies made;
- Total acquisitions, separated into capital and revenue items;
- Total acquisitions for making input taxed supplies ;
- Total acquisitions with no GST in the price;
- Total acquisitions for private usage;
- Total acquisitions that are not income tax deductible purchases;
- GST charged to, and collected from clients which is payable to the ATO;
- GST paid to suppliers of goods and services for which an input tax credit is due from the ATO;
- Tax withheld from payments made to suppliers without an ABN;
- Total salaries and wages;
- PAYE (PAYG) withheld from salaries & wages;
- Fringe Benefits Tax (FBT) payable; and
- Adjustments arising from alterations to figures reported in previous returns.

Attribution Rules

When designing and selecting your systems to produce accurate GST reports it is also important that you understand what is meant by the term “attribution rules”. These are rules that are used to determine in which GST return period a transaction is recorded for the purposes of accounting for GST. These will be different depending on whether you use a cash or an accrual basis of accounting for GST. Basically the rules are as follows:

Cash Basis

Supplies made by the organisation are deemed to be made in the GST tax period in which a payment is received in respect of the supply. Where part payment is received the supply is made in that GST period to the extent of the payment actually received. The balance of the supply is made in subsequent periods, to the extent of the payments received in subsequent periods. The date the invoice is issued in respect of the supply is immaterial.

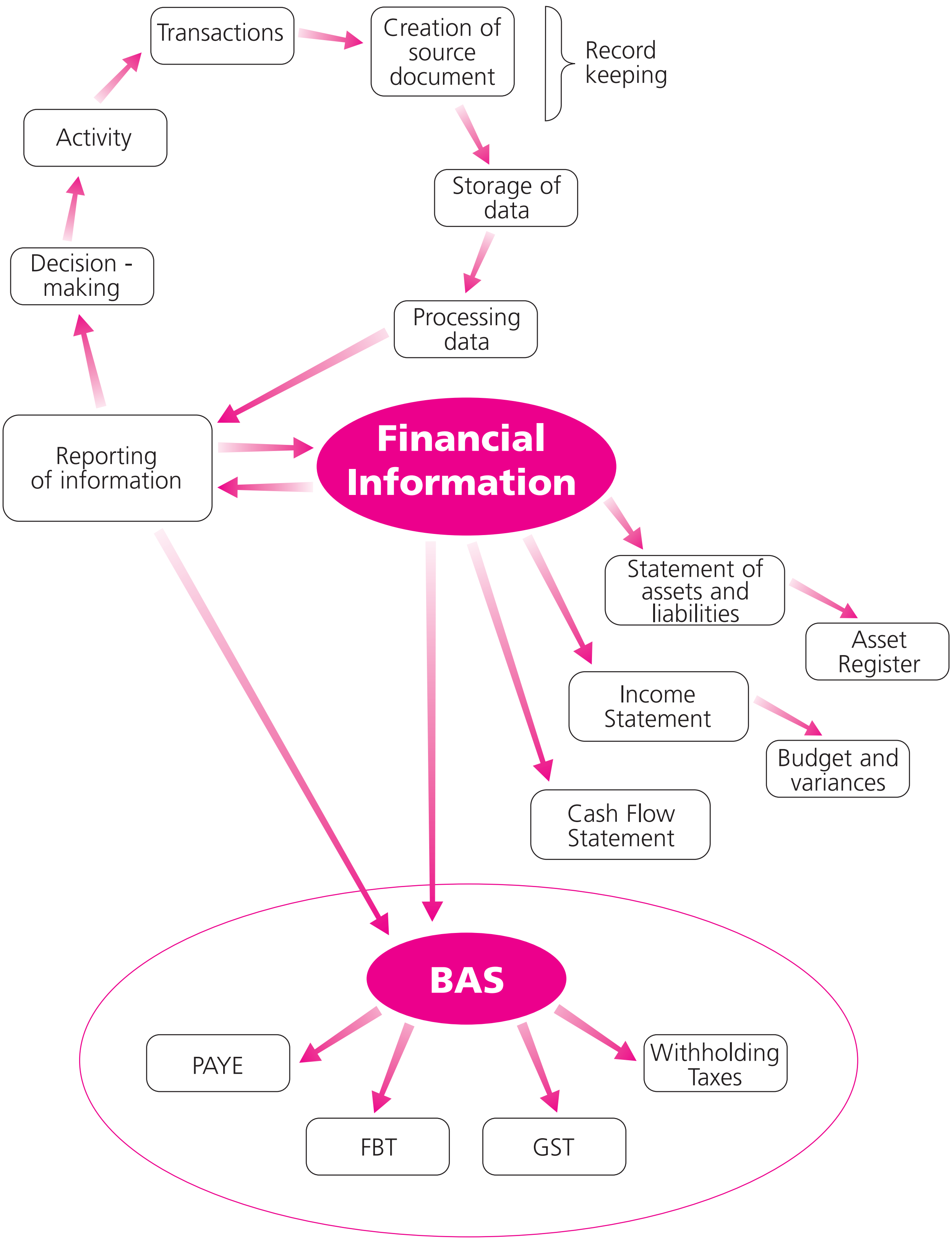
Supplies acquired by the organisation are deemed to be acquired in the GST tax period in which a payment is made in respect of the supply. Where part payment is made the supply is acquired in that GST period to the extent of the payment made. The balance of the supply is made in subsequent periods, again to the extent of the payments made. A valid tax invoice must be held at the time an input tax credit is claimed regardless of the time of supply.

Accrual Basis

Supplies made by the organisation are deemed to be made in the earlier of the GST tax period in which any payment is received in respect of the supply, or the period in which a tax invoice is issued.

Supplies acquired by the organisation are deemed to be acquired in the GST tax period in which a valid tax invoice is received in respect of the supply.

Typical flow chart of reports generated from systems



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26. Risk Management

Risk Management is the implementation of controls to minimise and manage the risks your organisation faces with the introduction of the GST. Such controls minimise losses to your organisation which could arise.

Your organisation needs to design a risk management program:

- Identify the risks;
- Evaluate the risks by determining the probability that such an event will occur and what will be the resulting loss. Then prioritise the risks identified on the basis of the evaluation;
- Design risk management procedures to minimise the risks identified. When designing the procedures you need to also take into account the costs of implementing such procedures;
- Implement the procedures including training of staff; and
- Continually review the procedures to ensure they are operating as designed, that the staff are adhering to the procedures, and that the procedures are adequate given any changes in the organisation or to legislation.

26.1 Misclassifying Supplies

The incorrect classification of supplies for GST purposes can result in losses to your organisation.

The misclassification of a taxable supply as a GST-free supply means GST will not be collected from your customer. However, your organisation is liable to pay the applicable GST to the ATO. Therefore, 1/11th of the value of the supply will need to be remitted to the ATO, resulting in a monetary loss to your organisation.

This risk can be managed by committing time to identify each type of supply your organisation makes. Seek advice from your Diocesan or Congregational contact, a professional advisor or the ATO when unusual or irregular supplies occur.

26.2 Incorrect Recording & Reporting of GST

Even if supplies are correctly identified, your organisation can face monetary loss if the recording and/or reporting systems are inadequate. Inadequate recording and/or reporting systems can result in an incorrect BAS.

If GST collected on taxable supplies is not identified and recorded in the accounting system as a liability this amount will not be reported on the BAS and remitted to the ATO. This exposes your organisation to penalties which the ATO can impose.

If GST paid on creditable acquisitions is not identified and recorded in the accounting system as an asset this amount will not be reported on the BAS and claimed back from the ATO.

These risks can be managed by implementing a Chart of Accounts that has been correctly designed, by training staff in the correct treatment and recording of GST, and by putting in place a check of the BAS to supporting tax invoices.

26.3 Tax Invoices

Regardless of how your organisation accounts for GST, either cash or accrual, a valid tax invoice must be held in order to claim an input tax credit. Incorrectly claiming input tax credits exposes your organisation to the risk of penalties imposed by the ATO.

To manage this risk implement a procedure where a supplier is not paid until they provide a valid tax invoice. However, staff need to also be aware that a tax invoice is not required for supplies with a value of less than $50 (without GST), or from suppliers who are not registered for GST.

26.4 Cashflow

The GST can have a significant effect on the cashflow of your organisation. The cost of supplies may increase. Your organisation may be entitled to a refund for the GST paid on these supplies. However, this refund will not be received by your organisation until 14 days after you lodge your BAS. This can be up to three months after you paid the GST, if your organisation is reporting quarterly. However, the GST can also have a positive effect on your cashflow if you are collecting GST on taxable supplies.

Cashflow needs to be managed to ensure that your organisation has enough funds to operate effectively, and to have the cash to remit any GST payable to the ATO when the BAS is lodged. An effective tool for managing cashflow is the preparation and monitoring of cashflow budgets.

26.5 Contracts

Under the GST legislation the obligation to remit any GST to the ATO rests with the supplier, not with the client. If your organisation does not collect the GST from your clients you must remit 1/11th of the value of taxable supplies to the ATO.

Manage this risk by obtaining advice from your Diocesan or Congregational contact or a legal advisor before entering into any contracts. This will ensure that supply contracts contain the relevant clauses to allow you to collect GST from the other party.

26.6 Insurance

Insurance will be a taxable supply for GST. Therefore, your organisation will pay GST on insurance premiums to the extent that they provide cover after 1 July 2000. If your organisation is registered an input tax credit can be claimed for this GST paid.

However, you must notify your insurer of the extent to which you can claim input tax credits on your premium. This needs to be done so you do not have a GST liability on an insurance settlement. You need to notify your insurer when you take out, or renew, an insurance policy. You must notify your insurer before 1 July 2000 if you have already taken out, or renewed, a policy and the next renewal date is after 1 July 2000.

26.7 Pricing

The change in the tax regime means a change in the underlying costs to your organisation. The prices being charged for goods or services ‘sold’ need to be reviewed in light of the GST. The ACCC has the responsibility of monitoring prices for the introduction of the GST and has the power to impose very large penalties (up to $10 million for corporations and $500,000 for individuals) for price exploitation.

Manage the risk of exposure to ACCC action by developing and documenting a pricing model, taking into account the ACCC guidelines, and the estimated costs of your organisation with the GST.

The ACCC guidelines in summary are:

- Prices should be reduced immediately to pass on the full effect of tax reductions;
- Any increase in price based on the GST should include a full offset for other indirect tax reductions;
- No markup should be applied to the GST component of price;
- Prices should reflect only actual, not anticipated, tax increases; and
- Prices should change to ensure that the net dollar margin remains the same (the dollar difference between cost and price).

27. Transitional Issues

The general principal is that GST applies to all goods delivered and all services performed after 1 July 2000. However, during the transition to GST, this could lead to the situation where some will receive an unfair economic advantage and others will suffer an economic loss.

The Government has introduced transitional rules to ensure there is a smooth transition to GST.

Transactions that will be affected by the transitional rules are those that span the implementation date of 1 July 2000, including:

- Sales and purchases of goods and services;
- Progressive supplies and prepayments such as subscriptions;
- Purchases of motor vehicles; and
- Contracts.

27.1 Time of Supply

The time of supply, not the date of invoice or payment, is the determining factor as to whether GST applies to a supply. Therefore it is essential that you determine the time of supply for each supply spanning the transition period.

The time of supply depends on what the supply is. The general rules in respect of supplies spanning the implementation date are:

TYPE OF SUPPLY	WHEN THE SUPPLY OR ACQUISITION IS MADE
Goods	When the goods are **removed**; or if the goods are not removed - when the goods are made available to the recipient; or if the goods are removed before it is certain that a supply will be made - when it becomes certain that a supply has been made.
Progressive Supplies Such as Maintenance Contracts	The supply is deemed to occur on a **continuous and uniform** basis throughout the period
Services	When the services are **performed**. Special provisions exist for such supplies made on a periodic or progressive basis
Real Property Such as Land or Land and Buildings	When the property is **made available** to the recipient. Special provisions exist for major construction agreements.
Any Other thing, for Example, Rights	When the thing is **performed** or done. Special provisions exist for such supplies made on a periodic or progressive basis

These are general rules only.

Example

Your parish rents the hall to the local Tai Chi Club. The Club pays $55 on 26 June 2000, being rent of the hall for July 2000.

The supply is made after 1 July 2000, therefore GST applies to the supply and $5 (1/11th of the $55) must be remitted to the ATO by your parish.

Special transitional rules apply to:

- Supplies arising from contracts spanning 1 July 2000;
- Rights granted for life;
- Periodic or progressive supplies;
- Construction agreements;
- Supply of rights; and
- Funeral agreements entered into prior to 1 December 1999.

27.2 Progressive Supplies

These are supplies that are made for a period, or progressively over a period that spans 1 July 2000. Such supplies are deemed to be made continuously and uniformly throughout the period. The value of the supply made after 1 July 2000 will be subject to GST.

These rules apply regardless of how your organisation accounts for GST, cash or accrual.

Example

Your organisation enters into a photocopier service contract for the period 1 March 2000 to 28 February 2001. Does GST apply?

Yes! GST will apply on a pro rated basis. The supply is pro rated over the 12 months, irrespective of when the services are supplied.

1 March 2000 – 30 June 2000
No GST applies

1 July 2000 – 28 February 2001
Taxable supply

The supplier, if registered, will be liable to remit 1/11th of the supply value from 1 July 2000 to the ATO. Your organisation, if registered, will be entitled to claim an input tax credit for that amount.

Other examples of where this may apply:

- Subscriptions and memberships; and
- Warranties on motor vehicles, but not where the payment for the warranty is part of the purchase price of the vehicle.

27.3 Motor Vehicles

Generally input tax credits can be claimed for the GST included in the price of both operating and capital items. However, there will be a phase in of input tax credits on new motor vehicle purchases.

If your organisation was entitled to an exemption from WST on the purchase of new motor vehicles prior to 1 July 2000, the phase in rules do not apply.

Also, there are no phase in rules for the purchase of second-hand motor vehicles.

DATE OF PURCHASE	PERCENTAGE OF GST PAYABLE THAT CAN BE CLAIMED AS AN INPUT TAX CREDIT	INPUT TAX CREDIT AVAILABLE TO ORGANISATIONS PREVIOUSLY ENTITLED TO WST EXEMPTION
From 1 July 2000 up to and including 30 June 2001	00	100
From 1 July 2001 up to and including 30 June 2002	50	100
From 1 July 2002 onwards	100	100

The percentage is based on the vehicle being acquired and used solely for ministry purposes.

You need to introduce controls to ensure that the correct input tax credit is claimed on any motor vehicle purchases.

27.4 Contracts

Supplies made on or after 1 July 2000 under contracts entered into on or after 8 July 1999 will be subject to GST. The general rules of time of supply will apply.

Special transitional rules apply to contracts entered into before 2 December 1998 (when the GST bill was introduced to Parliament) or before 8 July 1999 (when the GST legislation became law), that:

- Are in writing;
- Identify a supply; and
- Identify consideration or a way of calculating the consideration.

The impact of GST on such contracts varies, depending on:

- Whether the contract is reviewable or non-reviewable;
- The date on which the contract was entered into;
- Whether full payment of the contract value was made prior to 2 December 1998; and
- Whether the client is entitled to a full input tax credit for the supply.

27.4.1 Non- reviewable Contracts

Non-reviewable contracts are ones where the price paid for the supply is fixed (or calculated according to some specified formula) and cannot be varied or reviewed by either party to the agreement to take account of the GST. It may contain provisions that mean that the contracted price does not include GST.

Note the following would be non-reviewable contracts:

- Where there is a formula or set calculation for the consideration and therefore the consideration can vary. Unless the formula or calculation itself can be varied, the contract is non-reviewable; and
- Where there is an inflation adjustment clause (CPI).

GST implications of non-reviewable contracts:

SCENARIO	GST TREATMENT
Buyer entitled to a full input tax credit for the supply. The contract was entered into prior to 8 July 1999.	GST-free for supplies made prior to 1 July 2005.
Buyer not entitled to a full input tax credit for the supply. The contract was entered into prior to 2 December 1998.	GST-free for supplies made prior to 1 July 2005.
Buyer not entitled to a full input tax credit for the supply. The contract was entered into after 2 December 1998 and prior to 8 July 1999.	Supplies made after 1 July 2000 will be subject to GST.
The contract was entered into and paid in full prior to 2 December 1998.	GST-free regardless of whether the buyer is entitled to full input tax credits.
Contract entered into after 8 July 1999.	Supplies made after 1 July 2000 will be subject to GST, regardless of whether the buyer is entitled to full input tax credits.

27.4.2 Reviewable contracts

A reviewable contract is one that allows reviews of the price of anything supplied under the contract.

Contracts likely to be affected are those:

- For the supply to, or by, your organisation of both goods and services;
- For the rent or lease of premises and/or capital equipment;
- For the purchase of capital assets;
- For the sale of capital assets;
- For construction of major assets; and
- For other long term contracts.

GST implications of reviewable contracts:

SCENARIO	GST TREATMENT
Buyer entitled to a full input tax credit for the supply. The contract was entered into prior to 8 July 1999.	Supplies are GST-free until the first opportunity to review the price of any supplies, or 1 July 2005, whichever is earlier.
Buyer not entitled to a full input tax credit for the supply. The contract was entered into prior to 2 December 1998.	Supplies are GST-free until the first opportunity to review the price of any supplies, or 1 July 2005, whichever is earlier.
Buyer not entitled to a full input tax credit for the supply. The contract was entered into after 2 December 1998 and prior to 8 July 1999.	Supplies made after 1 July 2000 will be subject to GST.
The contract was entered into and paid in full prior to 2 December 1998.	GST-free regardless of whether the buyer is entitled to full input tax credits.
Contract entered into after 8 July 1999.	Supplies made after 1 July 2000 will be subject to GST, regardless of whether the buyer is entitled to full input tax credits.

Organisations with contracts should seek advice from their Diocesan or Congregational contact, a professional advisor or the ATO.

27.4.3 Entity Status

The GST treatment of supplies made on or after 1 July 2000 under a contract entered into prior to 1 July 2000 depends upon whether the 'buyer' is entitled to a full input tax credit for those supplies.

Your organisation will need to implement system checks to determine this:

- First decide whether the 'buyer' is a 'business' entity or a private 'consumer'. Private consumers are not entitled to claim input tax credits;
- If the 'buyer' is a 'business' entity determine whether they are registered for GST; and
- If they are registered for GST determine whether they make input taxed supplies. For example, they provide financial services (banks), or the rent of residential accommodation.

27.5 Funeral Agreements

Special transitional rules exist for funeral agreements that override the general contractual rules. The supply of a funeral after 1 July 2000 under a contract prior to 1 December 1999 will be GST-free provided the contract is paid in full prior to 1 July 2005, or a review date after 8 July 1999, whichever is earlier. If the payment is made after this time and the funeral is supplied on or after 1 July 2000, GST will apply.

The supply of funeral services under contracts entered into after 1 December 1999 will attract GST if the funeral is supplied on or after 1 July 2000, regardless of when payment is made

27.6 Stock on Hand

If your organisation is registered for GST and is holding goods for resale on 1 July 2000 you may be entitled to a special GST credit.

The credit is only available for stock held for sale or exchange. It is not available for goods to be consumed within your organisation.

The credit, if available, can be claimed in one BAS lodged prior to 22 January 2001.

New Stock
The GST credit available is equal to the WST that was paid on that stock.

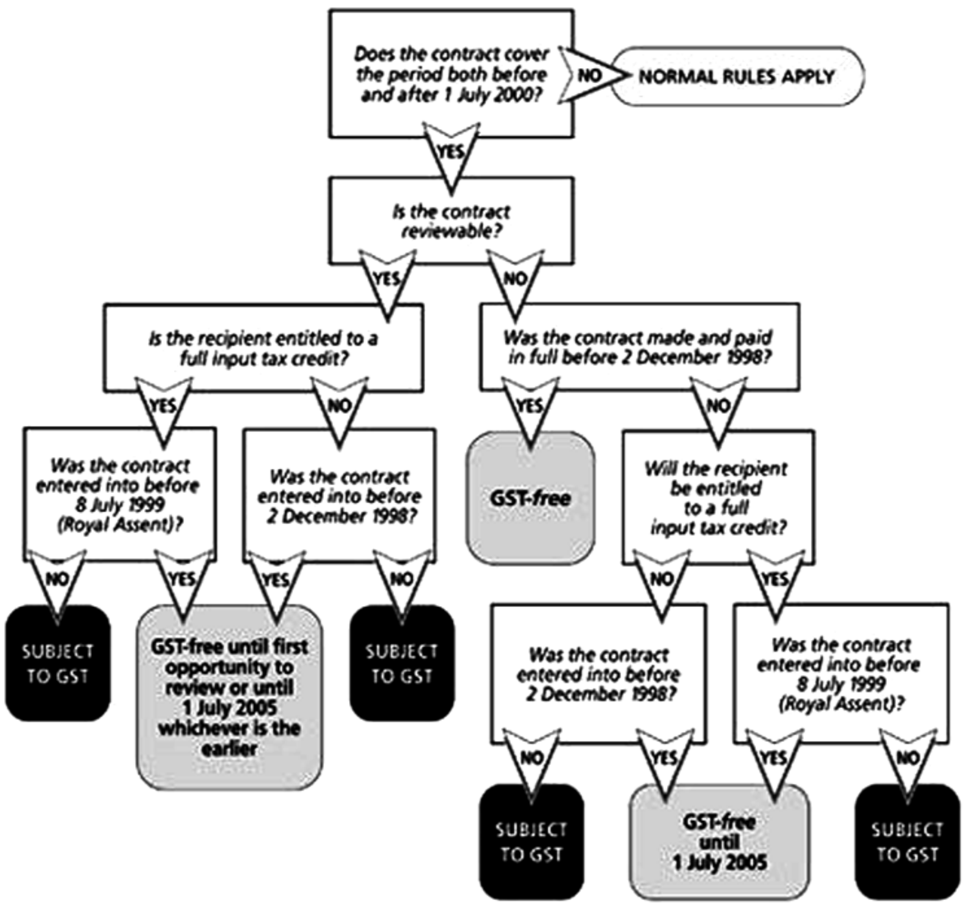
Second-hand Goods
The GST credit available is the lesser of:

- 1/11th of the amount paid for the good; or
- The amount of GST payable when the good is sold.

If your organisation holds stock for resale, either new or second-hand, a stocktake must be performed on 30 June 2000. This stocktake must be documented and the documentation needs to be retained for five years. The calculation of the special GST credit must also be documented. Again, this must be retained for five years, with any supporting documentation (for example, purchase invoices).

27.7 Actions required now

- All existing contracts extending beyond 1 July 2000 should be reviewed;
- The GST implications on all the existing contracts should be checked;
- The GST implications of new contracts entered into from now until 1 July 2000 should be considered; and
- Consider what further actions may be needed as a result of the above, for example, contact a solicitor.



Contacts

GST Start-Up Assistance Office

www.gststartup.gov.au

GST Community Sector Assist Helpline

13 30 88

The Australian Taxation Office (ATO) - Tax Reform Office

www.taxreform.ato.gov.au

Australian Competition and Consumer Commission (ACCC)

www.accc.gov.au

The Catholic Church Tax Working Group

www.tax.thechurch.com.au