

# GST and financial supplies

## Claiming reduced GST credits

### TERMS WE USE

When we say:

- **purchases**, we are referring to the GST term **acquisitions**
- **sales**, we are referring to the GST term **supplies**
- **GST credits** we are referring to the GST term **input tax credits**
- **business** we are referring to the GST term **enterprise**
- **GST law** we are referring to the **A New Tax System (Goods and Services Tax) Act and Regulations 1999**.

### WHAT IS A SELF MANAGED SUPER FUND (SMSF)?

The *Superannuation Industry (Supervision) Act 1993* (SIS Act) lists the requirements that you must meet to be a SMSF.

Generally, you are a SMSF if:

- you have four or fewer members
- no fund member is an employee of another fund member, unless they are related
- each member is a trustee, and
- no trustee of the fund receives any remuneration for their services as a trustee.

### MUST YOU REGISTER FOR GST?

If you carry on a business, you must register for GST if your GST turnover is \$75,000 or more.

Most SMSFs do not have to register for GST because:

- SMSFs mainly make input taxed sales, and
- you do not count input taxed sales that you make towards your GST turnover.

Two common types of input taxed sales are:

- financial supplies, and
- supplies of residential premises by way of rent or sale.

However, you may choose to register for GST.

In deciding whether to register voluntarily, we recommend you consider:

- any increases in time or costs for record keeping and reporting

- the fact that GST applies to taxable sales and you could claim GST credits for creditable purchases
- whether you can claim reduced GST credits on your reduced credit acquisitions.

➤ For more information on registering for GST and working out your GST turnover, refer to *GST for small business* (NAT 3014).

### ARE YOU MAKING A FINANCIAL SUPPLY?

Generally you are making a financial supply if you:

- provide an interest in a regulated super fund, or
- buy and sell shares.

Financial supplies are input taxed. This means you:

- do not pay GST to us on financial supplies you make, and
- generally cannot claim GST credits for the GST included in the price you pay for anything you purchase to make those supplies.

➤ For more information on what a financial supply is refer to Goods and Services Tax Ruling GSTR 2002/2 Goods and services tax: GST treatment of financial supplies and related supplies and acquisitions.

### CAN YOU CLAIM GST CREDITS?

While you generally cannot claim GST credits on purchases you use to make financial supplies, you may be able to claim them if you do not exceed the financial acquisitions threshold (see page 2).

If you exceed the financial acquisitions threshold you can still generally claim reduced GST credits if your purchase is a reduced credit acquisition (see page 2).

➤ For more information on other exceptions to the general rule about claiming GST credits for purchases you use to make financial supplies, see *GST and financial supplies – completing your activity statement* (NAT 10816).



### Financial acquisitions threshold

There are two tests you can use to see if you exceed the financial acquisitions threshold. You may exceed the threshold under either test.

Both tests are based on financial acquisitions you make. A financial acquisition is a purchase that you use for making a financial supply (other than a financial supply which is a borrowing).

Both tests take into account financial acquisitions made over 12-month periods:

- current financial acquisitions means financial acquisitions you make over the whole of the current month plus the preceding 11 months
- future financial acquisitions means financial acquisitions you make over the whole of the current month plus the following 11 months (you must estimate this amount).

To test whether you exceed the financial acquisitions threshold in a particular month, you must assume that the financial acquisitions you have made, or are likely to make are not used:

- to make input taxed sales, or
- partly for a private or domestic purpose.

You exceed the financial acquisitions threshold for a particular month if:

- the GST credits you could claim for current or future financial acquisitions exceed \$50,000 in the relevant 12-month period, or
- the amount of GST credits you could claim for current or future financial acquisitions is more than 10% of the total amount of GST credits you could claim for all your purchases (including financial acquisitions) during the relevant 12-month period.

➤ For more information about working out whether you exceed the financial acquisitions threshold, refer to Item 7 of the 'Financial services – questions and answers' section on our website at [www.ato.gov.au](http://www.ato.gov.au)

### WHAT ARE REDUCED CREDIT ACQUISITIONS?

Reduced credit acquisitions are certain types of purchases you can claim a reduced GST credit for when you use them to make financial supplies.

The amount of reduced GST credit you can claim for a reduced credit acquisition is 75% of any GST included in the purchase price.

➤ For a complete list of items that are reduced credit acquisitions, refer to Division 70 of Part 4-2 of the GST law. These items are explained in detail in Goods and Services Tax Ruling GSTR 2004/1 Goods and services tax: reduced credit acquisitions.

### EXAMPLES OF REDUCED CREDIT ACQUISITIONS

#### Investment portfolio management functions

In this context, the term 'investment portfolio' means the same as 'asset portfolio' and relates to particular classes or sectors within a particular class of investments you own.

GSTR 2004/1 says that management involves more than just providing advice for you to act on. This means that obtaining financial advice, by itself, is not a reduced credit acquisition.

Investment management services include, but are not limited to:

- establishing a financial plan or investment strategy,
- ongoing implementation, execution, or refining of that plan or strategy, and
- ongoing implementation or execution of a given investment mandate.

#### Administrative functions

The following administrative functions are reduced credit acquisitions if they relate to investment funds, including superannuation schemes:

- maintaining member, employer and trustee records and associated accounting
- processing applications, contributions, benefits and distributions
- ensuring compliance with industry regulatory requirements (excluding taxation and auditing services).

A regulatory requirement in this context refers to a Commonwealth, state or territory law. For example, any requirement in the SIS Act is a regulatory requirement for SMSFs.

Trustee records include minutes of trustee meetings, records of all decisions affecting the trust and similar documents.

Associated accounting refers only to those accounting tasks that are associated with maintaining member, employer or trustee records. It includes:

- posting entries to accounts to record individual member or employer contributions
- debiting charges to individual member accounts, and
- recording payments to members and investors of a managed investment scheme.

## WHAT ARE NOT REDUCED CREDIT ACQUISITIONS?

Purchases not mentioned in the complete list in Division 70 of Part 4-2 of the GST law are not reduced credit acquisitions.

**!** Tax and auditing services are specifically excluded from being reduced credit acquisitions.

Tax services that are excluded are services such as:

- providing tax advice
- preparing and lodging a tax return, statement or specific requests for information we make, and
- representing you in connection with any audit activities we start.

Auditing service is a broad term that refers to any service that systematically looks at accounting records and financial statements to work out whether they give a true and fair view of the business carried on.

The following purchases are also generally not reduced credit acquisitions:

- accounting services that are not related to maintaining member, employer or trustee records
- providing advice and preparing financial statements (other than those you must provide under a regulatory requirement)
- legal services (including legal costs to set up your SMSF).

However, in very limited circumstances where these purchases form an ancillary, incidental or integral element of an administrative function under funds management services, they may be treated as reduced credit acquisitions.

## WHAT GST CREDITS CAN YOU CLAIM?

You can generally claim full GST credits for items you purchase to make a taxable sale if you satisfy all the requirements of the GST law.

### EXAMPLE: How to claim GST credits

#### Hazel Super Fund

Hazel Super Fund is a SMSF and is registered for GST.

Hazel Super Fund has made the following purchases (amounts include GST):

|   |          |
|---|----------|
| ■ repairs to residential property   | \$7,000  |
| ■ repairs to commercial property  | \$14,300 |
| ■ management of investment portfolio  | \$1,100  |
| ■ maintenance of member records and associated accounting (excluding auditing and tax services) | \$880    |
| ■ brokerage on share sale   | \$440    |

Financial acquisitions the fund made are:

- investment portfolio management
- maintaining member records and associated accounting
- brokerage on share sale.

Total GST credits on financial acquisitions  
= \$220  $(\$1,100 + \$880 + \$440) \times 1/11$ .

Total GST credits that the fund could claim  
= \$1,520  $(\$14,300 + \$1,100 + \$880 + \$440) \times 1/11$ .

The fund has exceeded the financial acquisitions threshold as its total GST credits on financial acquisitions exceeds 10% of the total GST credits the fund could claim  $(\$220 \div \$1,520 \times 100 = 14.47\%)$ .

Providing a residential property for lease is an input taxed supply so Hazel Super Fund cannot claim GST credits for GST they paid on purchases that relate to making that supply.

Providing a commercial property is a taxable supply.

Hazel Super Fund can claim GST credits for GST they paid on purchases that relate to making taxable sales. The GST credit is \$1,300  $(\$14,300 \times 1/11)$ .

Fees paid to manage the fund's investment portfolio, brokerage costs and maintaining its member records and associated accounting are all purchases that relate to making financial supplies.

The fund can claim reduced GST credits for these purchases because they:

- are listed in the GST law as reduced credit acquisitions, and
- relate to making financial supplies.

Therefore, the fund can claim reduced GST credits for:

- portfolio management \$75  $(\$1,100 \times 1/11 \times 75\%)$
- records maintenance and associated accounting \$60  $(\$880 \times 1/11 \times 75\%)$
- brokerage costs \$30  $(\$440 \times 1/11 \times 75\%)$ .

Total reduced GST credit they can claim is \$165  $(\$75 + \$60 + \$30)$ .

Total GST credit they can claim on purchases they use to make taxable sales is \$1,300  $(\$14,300 \times 1/11)$ .

Total credit they can claim as GST credits and reduced GST credits is \$1,465  $(\$1,300 + \$165)$ .

If you are not sure whether your purchases are reduced credit acquisitions, you may request a private ruling using the following forms:

- *Private ruling application form (non-tax professionals)* (NAT 13043)
- *Private ruling application form (tax professionals)* (NAT 13742).

### WHAT ABOUT PURCHASES NOT COMPLETELY RELATED TO MAKING FINANCIAL SUPPLIES?

If you exceed the financial acquisitions threshold (for example, because you invest primarily in shares and managed funds like many other SMSFs), then:

- for the part of your purchase which relates to making financial supplies
  - you may be able to claim a reduced GST credit on that part where your purchase is a reduced credit acquisition, or
  - you cannot claim any GST credits on that part where your purchase is not a reduced credit acquisition
- for the part of your purchase which does not relate to making financial supplies you may be able to claim full GST credits depending on how you use the purchase in your business.

If you do not exceed the financial acquisitions threshold, then, depending on how it is used, you may be able to claim a full GST credit on the whole of your purchase regardless of whether or not it is a reduced credit acquisition.

### EXAMPLE: Purchases you make that relate to both taxable sales and input taxed sales

#### Koh-ee Super Fund (Koh-ee)

Koh-ee Super Fund:

- is a SMSF
- is registered for GST, and
- exceeds the financial acquisitions threshold.

Koh-ee purchases investment portfolio management services of \$1100 (inclusive of GST) in relation to its interests in:

- a domestic share portfolio, and
- commercial property.

For the part of the services that relates to making financial supplies, Koh-ee:

- cannot claim full GST credits, but
- can still claim a reduced GST credit as it is a reduced credit acquisition.

Based on previous years' data, Koh-ee estimates the purchase is used 55% for making taxable sales and 45% for making financial supplies.

So, the extent to which Koh-ee makes the purchase for a creditable purpose is:

$$55\% + (45\% \times 75\%) = 88.75\%$$

Koh-ee applies this percentage to the GST on the purchase to work out the GST credit they can claim.

In this example, the reduced credit acquisition includes GST of \$100.

Therefore, Koh-ee can claim \$88.75 ( $\$100 \times 88.75\%$ ).

Koh-ee also purchases auditing and tax services for \$2200. This purchase is not a reduced credit acquisition and relates to the whole of the business – it is not for any particular sale made by Koh-ee. Therefore, Koh-ee can only claim credits for part of the purchase.

One suitable method Koh-ee could use to work out a GST credit claim is to consider how other inputs have been used over previous years. (There may be other ways that Koh-ee could work this out which will also be suitable).

For example, Koh-ee knows that they use the investment portfolio management services referred to above 55% for taxable sales and 45% for input taxed sales. Using this method, Koh-ee works out the credits they can claim as follows:

The GST on this purchase is  $\$2200 \times 1/11 = \$200$ .

They worked out they can claim 55% of this purchase:  
 $\$200 \times 55\% = \$110$

## HOW DO YOU TREAT *IN SPECIE* CONTRIBUTIONS AND DISTRIBUTIONS?

*In specie* contributions and distributions are contributions and distributions of things other than money.

Under super law, those *in specie* contributions that are allowed to be transferred into a fund include listed securities and business real property (including commercial property) at market value.

Generally, an *in specie* contribution of commercial property or shares a member makes to you has no GST consequences. However, this depends on your specific circumstances.

If you are a discretionary trust, the GST consequences of an *in specie* distribution you make to a member will also depend on the circumstances.

➤ If you are not sure about the GST consequences of your *in specie* contributions or distributions, you can request a private ruling using the following forms:

- *Private ruling application form (non-tax professionals)* (NAT 13043)
- *Private ruling application form (tax professionals)* (NAT 13742).

## ➤ MORE INFORMATION

For more information about GST and financial supplies, refer to:

- Goods and Services Tax Ruling GSTR 2002/2 Goods and services tax: GST treatment of financial supplies and related supplies and acquisitions
- Goods and Services Tax Ruling GSTR 2003/9 Goods and services tax: financial acquisitions threshold
- Goods and Services Tax Ruling GSTR 2004/1 Goods and services tax: reduced credit acquisitions
- Goods and Services Tax Ruling GSTR 2006/3 Goods and services tax: determining the extent of creditable purpose for providers of financial supplies.

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