



MANAGING YOUR BUSINESS COMMON GST MISTAKES

UNDERSTANDING GST TO AVOID BUSINESS COMPLIANCE HEADACHES

This fact sheet looks at common GST errors businesses make and (where appropriate) identifies the correct GST treatment so that these errors can be avoided.

- Incorrectly claiming GST credits on bank fees (eg. monthly/annual fees, cheque book fees and loan establishment fees) Bank fees are treated as 'Input Taxed' meaning that the Bank does not charge GST. Note that GST is charged on credit card merchant fees and therefore a GST credit can be claimed on these.
- Not using the correct accounting method. If your business is using the cash accounting method for GST and turnover is expected to be \$2 million or more, you need to change to the accruals or invoice basis.
- Incorrectly claiming GST credits on government charges like land tax, council rates, water rates, ASIC filing fees and motor vehicle registration where no GST has been charged.
- Incorrectly claiming a GST credit on the 'total cost' of a business insurance policy. The stamp duty component is not subject to GST, so a GST credit cannot be claimed on this portion of the payment. The actual amount of GST payable on an insurance premium is usually stated on the renewal form.
- GST is paid on the sale of cars and equipment, including the trade of motor vehicles. The sale of a business asset is subject to GST just like any ordinary business transaction unless the going concern exemption applies.
- Not including the annual Fringe Benefits Tax (FBT) employee contributions and the GST at items G1 and 1A on the relevant Business Activity Statement (BAS). Many employers avoid the need to lodge an annual FBT return by having employees make an after-tax contribution to reduce the taxable value of fringe benefits (mainly on cars) to NIL.
- Not remitting GST on some government grants and incentives which are received inclusive of GST.
- Incorrectly claiming GST credits on GST-free purchases such as basic food items, exports and some health services.
- Incorrectly claiming GST credits on donations, wages and superannuation payments.
- Incorrectly claiming the full amount of GST credits on entertainment expenses where the business has elected for FBT purposes to use the 50/50 split method. In this case only 50% of the input tax credits can be claimed.
- Claiming the entire GST credits on a car purchased for more than the luxury car limit (\$57,466 GST inclusive for the 2015-16 year). The maximum GST credit that can be claimed is limited to \$5,224.
- Sole traders and partnerships not apportioning input tax credits and making adjustments to expenditure that is partly private and partly business use (eg. motor vehicle expenses). To calculate their GST liability small businesses are required to undertake this apportionment each time they prepare their BAS, although in practice actual private use may not be accurately determined until the business is required to complete and lodge its annual income tax return. Sole traders and partnerships with an annual turnover up to \$2 million that pay GST either quarterly or monthly can apply private use apportionment for GST purposes on an annual basis instead of each time the BAS is lodged.

...continued over

2017/07

07 **3360 9888**

17 Mt Gravatt-Capalaba Road, Upper Mt Gravatt Qld 4122

Learn more at www.peakpartnership.com.au



The Peak Partnership
CHARTERED ACCOUNTANTS

MANAGING YOUR BUSINESS COMMON GST MISTAKES

- Incorrectly claiming an upfront GST credit on assets financed via commercial hire purchase (CHP). While an up-front GST credit is available for businesses accounting for GST using the accruals or invoice basis, this is not available where the business uses the cash basis. When the cash basis applies, the GST credit to be claimed is calculated as 1/11th of the 'principal' portion of the total CHP payments made during the relevant month or quarter, (ie. the credit is claimed progressively over the term of the CHP loan). There is a major change in the law applying to assets acquired under a CHP from 1 July 2012, whereby a full GST credit can be claimed up-front for businesses using either the cash or invoice basis for recording GST. As well, the GST credit can now be claimed on the whole purchase, including the financing component under the agreement.
- Incorrectly claiming GST credits on payments for Yellow Pages advertising.
- Where the business chooses to pay for the cost of advertising by instalments, the entire GST is charged up-front. Businesses that accounts for GST on an accruals or invoice basis can claim this amount in their next BAS, whereas businesses that use the cash basis can only claim a GST credit equivalent to 1/11th of each instalment.
- Claiming a GST credit when the business does not have a valid tax invoice at the time of lodging the BAS. Businesses in this situation should contact the ATO for further advice.

It is also important that the GST accounts in the balance sheet are properly reconciled to the BAS at the end of each BAS period to ensure that the correct amount of GST has been paid and the financial statements are properly stated.

BAS ADJUSTMENTS

Where a business has made a clerical error on an earlier period BAS or omitted a particular transaction there are both 'time' and 'dollar' thresholds for determining the particular BAS in which the error or omission needs to be corrected. A business can make the change in the 'current' BAS where all of the following conditions are satisfied:

- The turnover of the business is less than \$20 million;
- The 'net' effect of the errors and omissions from the earlier period BAS is less than \$5,000 in GST credits; and
- The original transactions occurred within 18 months of the end of the current BAS period.

Where the 'net' effect of the errors or omissions from previous BAS occurs outside the relevant time and dollar limits the business must revise each original BAS that the errors or omissions occurred in. This may lead to the imposition of a General Interest Charge where the revision results in additional GST payable.



07 **3360 9888**

17 Mt Gravatt-Capalaba Road, Upper Mt Gravatt Qld 4122

Learn more at www.peakpartnership.com.au



The Peak Partnership
CHARTERED ACCOUNTANTS