

## 13 COMMON GST MISTAKES

The GST have now been operating for over 5 years yet despite a massive education campaign by the Australian Taxation Office (ATO) there are still many errors and omissions that are being made by small businesses on their GST returns. Most of these errors relate to the over-claiming of GST credits.

Below are some of the more common GST mistakes that are made by businesses and where appropriate identifies the correct GST treatment so that these errors are minimised in the future. The method of correcting some of these mistakes is also identified.

- Incorrectly claiming GST credits on bank fees (e.g. monthly and annual fees, cheque book fees and loan establishment fees). Bank fees are treated as 'Input Taxed' meaning that the Bank doesn't charge GST to the customer. Note that GST is charged on credit card merchants fees and therefore a GST credit can be claimed on these.
- 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. As there is a stamp duty component in the premium which is not subject to GST, 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 not 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 remitting GST on 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 including wages and superannuation in the calculation of input tax credits.
- Incorrectly claiming the full amount of GST credits on entertainment expenses where the business has elected for fringe benefits tax purposes to use the 50/50 split method, in which 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 of \$57,009 GST inclusive. The maximum GST credit that can be claimed is limited to \$5,183.
- Sole traders and partnerships are not apportioning input tax credits and making adjustments to expenditure that is partly private and partly business use (e.g. motor vehicle expenses). To calculate their GST liability small businesses are required to undertake this apportionment each time they prepare their BAS though in practice the 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 of up to \$2 million that pay GST either quarterly or monthly can now apply private use apportionment for GST purposes on an annual basis instead of each time the BAS is lodged. This measure commenced on 1 July 2004.
- Incorrectly claiming an upfront GST credit on assets financed by way of 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, (i.e. the credit is claimed progressively over the term of the CHP loan). In order to claim the total GST credit upfront the business would need to consider financing the asset by way of a chattel mortgage.
- 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 an input tax 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 permission to claim the GST credit.

## Correcting GST Mistakes

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 's 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 's occurs outside the relevant time and dollar limits the business must revise each of the original BAS 's 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.

The ATO has now shifted its GST focus from an education to compliance phase. It 's therefore very important for businesses to have the correct systems in place to ensure that GST is correctly accounted for on each transaction and that proper documentation is kept (e.g. valid tax invoices). Failure to comply with the GST rules may result in substantial penalties upon an audit by the ATO.

IF you have concerns regarding your GST, please call ARW