Cash and non-cash accounting

If you are registered for the GST, from 1 July 2000 you will remit GST to the Australian Taxation Office (ATO) and claim input tax credits for GST included in the price of goods and services you have acquired for use in your business.

You will do this on the Business Activity Statement you lodge after the end of each tax period.

There are some rules about how to work out which tax period your GST amounts belong to (that is, which tax period 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 or non-cash basis.

What is the difference between cash and non-cash accounting?

To determine what accounting method you currently use, look at your invoicing procedures and when you record payments and sales.

If you 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 a non-cash basis.

Many businesses use a combination of the two methods. However, from **1 July 2000** businesses will have to choose only one method of accounting for GST.

How does cash accounting work?

If you use a cash basis of accounting:

- you account for GST payable when you receive payment for a taxable supply that you have made, and
- you claim input tax credits 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 you purchase. You do not remit GST included in the price of a supply you make until you receive payment for that supply.

The amount of GST you remit or input tax credit you claim on a transaction depends on the payment you make or receive for the relevant goods or services in a particular tax period. For example, if you make a proportion of the total payment for a purchase, you claim a corresponding proportion of the total input tax credit claimable on that purchase.

However, an input tax credit is not attributed to a tax period if you do not have a tax invoice for the acquisition when you lodge your Business Activity Statement for that period.

(A tax invoice is a document generally issued by the supplier. It shows the price of a supply, indicating whether it includes GST, and may show the amount of GST.)

Who can use cash accounting for GST?

You can use a cash basis of accounting for your business if:

- your annual turnover is $1 million or less, or
- you are properly accounting on a cash basis for income tax purposes (as outlined in Income Tax Ruling TR 98/1), or
- you carry on a kind of enterprise that the Commissioner has determined as able to account for GST on a cash basis.

If you do not fit into any of these categories but wish to account for GST purposes on a cash basis, contact the ATO for more information on **13 24 78.**

How does non-cash accounting work?

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

Who can use non-cash accounting for GST?

If you are eligible to use a cash basis of accounting for GST, you can still use a non-cash basis of accounting for your business. If your annual turnover is more than $1 million you must account for GST on a non-cash basis, unless the ATO gives you approval to use a cash basis.

EXAMPLE

Philip, an architect, supplies design plans for a new restaurant to a developer for $7700 (including $700 GST) on 30 September. Philip gives the developer an invoice on the day of the sale, but payment is not due for 30 days.

Philip's tax period ends on 30 September. As he does not account for GST on a cash basis, the $700 GST payable is attributable to the tax period ending on 30 September, even though he has not been paid by the developer.

The developer's input tax credit is attributable to the tax period ending 30 September (provided the developer does not account for GST on a cash basis) because an invoice has been issued.

Attribution depends on the developer holding a valid tax invoice. For example, if the invoice issued on 30 September did not have all the information required of a tax invoice, attribution would be delayed until the tax period in which a valid tax invoice was supplied.

Regardless of which accounting method you use, you cannot claim an input tax credit until you receive a tax invoice (unless the GST-exclusive value of the supply is $50 or less).

Need more information?

The ATO has a range of materials to help you understand and become part of The New Tax System. You can obtain them by:

- phoning the business Tax Reform Infoline on **13 24 78**
- downloading information from the website at **www.taxreform.ato.gov.au**
- obtaining *A Fax From Tax* on **13 28 60**
- phoning the TTY service on **1300 130 478** if you have a hearing or speech impairment, or
- writing to us at **PO Box 9995** in your capital city.

Taxpayers who do not speak English and need help from the ATO can phone the Translating and Interpreting Service (TIS) on **13 14 50.**

Guarantee

Businesses can rely on the information presented in this publication, which provides advice from the Commissioner of Taxation on the operation of the GST system.

Under the GST law, any written ruling or advice given or published by the Commissioner protects taxpayers who have followed the information provided. Rulings or advice can be issued in the form of fact sheets, information booklets, advice manuals and bulletins.

In the event that there is a change in the law or the Commissioner's position on a particular matter, you will be protected in respect of what you have done up to the date of that change. This means that if you have relied on a ruling which has later been changed and, in reliance on the earlier ruling, you have underpaid an amount of GST, you will not be liable for the shortfall prior to the later ruling. Similarly, you will not be liable to repay an amount overpaid by the Commissioner as a refund in these circumstances. Equally, no penalties or interest will apply.

You should take care to ensure that the information in this publication is the latest advice from the Tax Office. Where a change occurs, the Tax Office will be taking all steps to alert taxpayers to that change.

The information in this publication is intended to explain how the GST System will work. It may not apply fully to your circumstances. You can always get help from the Tax Office or consider using a professional tax practitioner.

The information in this publication is current at 4 April 2000.