
Simplified Accounting for the Goods and Services Tax ('GST') in the Retailing Industry: Some Food for Thought

Dale Pinto
School of Business Law
Curtin University of Technology

Abstract

The introduction of a Goods and Services Tax ('GST') in Australia has already had a profound impact on many sectors of the economy that now have to understand and operate within the complexities of this new system of indirect taxation in Australia. A major consideration with the introduction of the GST has been the changes in accounting and computer systems that have become necessary to accommodate this new tax. The changes have been accompanied by higher administrative and compliance costs for businesses across sectors in the economy. This article looks specifically at simplified accounting measures that were introduced by the government from 1 July 2000 to assist business people in retail food businesses such as milk bars, bakeries, sandwich shops, and convenience stores, where some products are bought and sold GST-free. The simplified accounting methods are designed to save businesses in the retail industry time and paperwork.

Introduction

As part of fundamental tax reform in Australia, a Goods and Services Tax ('GST') was passed into law in July 1999 and took effect from 1 July 2000. The changes introduced as part of these reforms have impacted significantly on Australia's many retailers, not just in the day-to-day affairs of running these organisations but on the retailing industry and economy as a whole. The introduction of a GST heralded a new era for the retailing industry, as it meant that many such organisations, for the first time, have had to come to grips with the complexities of Australia's newly introduced indirect tax system.

The first part of this article examines the background to the introduction of the GST, including an explanation of how the GST system works. The next part of the article outlines the normal accounting methods needed for retailers under the GST rules and explain the need for simplified accounting rules for food retailers. This is followed by a discussion of the

simplified accounting rules. Finally, conclusions are drawn.

Background to the introduction of the Goods and Services Tax in Australia

As part of its tax reform package, the Commonwealth Government announced its intention to introduce a broad-based Goods and Services Tax ('GST'). The legislative package¹ to implement the GST was

¹ There are a number of Acts of the Commonwealth Parliament that govern the imposition and rate of the GST. These include: *A New Tax System (Goods and Services Tax) Act 1999* (Cth), *A New Tax System (Goods and Services Transition) Act 1999* (Cth), *A New Tax System (Goods and Services Tax Imposition - Customs) Act 1999* (Cth), *A New Tax System (Goods and Services Tax Imposition - Excise) Act 1999* (Cth), and *A New Tax System (Goods and Services Tax Imposition - General) Act 1999* (Cth). Also of relevance is the *Taxation Administration Act 1953* (Cth), as amended by the *A New Tax System (Goods and Services Tax Administration) Act 1999* (Cth), *A New Tax System (Australian Business Number) Act 1999* (Cth), *A New Tax System (Luxury Car Tax) Act 1999* (Cth), *A New Tax System (Wine Equalisation Tax) Act 1999* (Cth), *A New Tax System (Wine Equalisation Tax and Luxury Car Transition Tax)*

introduced into the lower House of Parliament (the 'House of Representatives') on 2 December 1998 and was promptly passed by that House, but it was partially rejected by the upper House of Parliament (the 'Senate'). Subsequent to this, amendments were made to the package to take into account recommendations by the Australian Democrats. Significant among those amendments was the exclusion of basic food from the GST rules. The legislative scheme was finally passed by both Houses of Parliament on 30 June 1999, and received Royal Assent on 8 July 1999. The GST took effect on 1 July 2000.

A. What is a GST?

A GST is commonly described as an 'indirect, broad-based consumption tax'. It is *indirect* in the sense that it is levied on goods, services and related activities, rather than directly on personal income.

It is *broad-based* in that it applies generally to a wide range of transactions, with only limited exceptions. It can be contrasted with more specific taxes, such as a sales tax, which generally only applies to transactions in goods. In fact, despite its name, a GST is not limited to goods and services in the usual sense of these words. The fact that it includes real estate and the creation of rights is evidence of how wide-ranging the tax is.

It is a *consumption tax* as it applies generally to expenditure (amounts spent) rather than income (amounts earned or received). Ultimately, it is a tax that is finally borne by consumers, rather than producers or suppliers.

Finally, a GST is similar to taxes known in other countries by its European title of Value Added Tax ('VAT'),² reflecting the fact that the tax is imposed on

the valued added by enterprises at each stage of production.

B. GST terminology

To assist in understanding the basic operation of the GST system, a number of key terms are defined.

Supply: Is defined widely³ and includes a supply of *goods*,⁴ a supply of services, provision of advice or information, a grant, assignment or surrender of *real property*,⁵ whether the acts constituting the supply are legal or not. The meaning of supply is not restricted to sales.

Taxable supply: GST is payable on taxable supplies. A taxable supply is defined to mean a *supply connected with Australia*⁶ for *consideration*⁷, made in the course or furtherance of an *enterprise*⁸ carried on by a *registered person* (see below). However, a supply is not a taxable supply if it is *GST-free* or *input taxed* (see below).

interchangeable. New Zealand, Canada, Singapore, South Africa and Australia use the term GST while France, Germany, the United Kingdom and other European Community Member Countries use the term VAT. In principle, the two systems are very similar. Perhaps one main difference between the two systems lies in the number of exemptions – European VAT systems generally have more exemptions than the GST systems of countries like New Zealand and Australia.

³ Section 9-10 *A New Tax System (Goods and Services Tax) Act 1999* (Cth) ('GST Act'). Legislative references in subsequent footnotes (including Sections, Divisions and Parts) are to the *GST Act* unless otherwise stated.

⁴ Defined as any form of tangible personal property: s195-1.

⁵ Defined as any interest in or right over land; or a personal right to call for or be granted any interest in or right over land; or a licence to occupy land or any other contractual right exercisable over or in relation to land: s 195-1.

⁶ Elaborated on in s 9-25. For present purposes, a supply of real property is connected with Australia if the real property is in Australia: s 9-25(4).

⁷ Widely defined to include any payment, or any act or forbearance in connection with a supply of anything: s 9-15.

⁸ Defined to essentially mean a business but excluding activities carried out as an employee or as a private recreational pursuit or hobby: s 9-20.

Act 1999 (Cth), and *A New Tax System (End of Sales Tax) Act 1999* (Cth).

² GST and VAT are terms that are generally

*Input taxed*⁹ supply: If a supply is input taxed, it means that there is no GST payable on it, but the supplier cannot claim *input tax credits* (see below) for the things that are acquired by the supplier to make the supply. Examples of input taxed supplies are financial services and residential rents. The difference between this type of supply and a *GST-free supply* (see below) is that no input tax credit is available to the supplier of input taxed supplies, while input tax credits are available to suppliers of GST-free supplies.

Input tax credit:¹⁰ Means a credit that is available to *registered persons* (see below) for GST paid on the supply of goods or services used in connection with a taxable supply. In other words, it is a credit for the GST payable on business inputs.

*GST-free*¹¹ supply: If a supply is GST-free, this means that no GST is payable on it (ie supplies are zero-rated), however the supplier is entitled to claim credits for the GST payable on the things acquired by the supplier to make the GST-free supply (ie its business inputs). Supplies which are GST-free fall into various categories including health, education, food, child care, supplies of water and sewerage services (including the emptying of septic tanks), and precious metals.

Registered entity:¹² An entity can only be registered if it is carrying on an enterprise (i.e. business). Registration is compulsory if the annual turnover for an entity exceeds a certain threshold.¹³ Below the threshold requirement, registration is optional. Registration is relevant for a number of reasons including: (1) GST is not payable on a supply unless the supplier is registered; (2) GST credits can only be claimed if a person is registered (hence, some people may wish to optionally register despite being below the specified thresholds for compulsory registration); and

(3) GST returns and other requirements must be completed by registered persons.

When a registered person issues a tax invoice for supplying goods and/or services, they will be required to include their Australian Business Number ('ABN'). The ABN that is required to appear on the tax invoice is part of a wider identification system conducted by the Australian Taxation Office, intended to reduce multiple government registrations for businesses and also to facilitate improved compliance. Consistent with this, a business's ABN will also act as its public GST registration number.

Business Activity Statement (BAS): This is a form which is used as the return for GST and various other taxes, such as wine equalisation tax, luxury car tax, FBT instalments, income tax withholding and instalments, and deferred company tax instalments.

C. The mechanics of the GST system

GST is imposed when a 'taxable supply' is made. The rate of GST is 10%. This is included in the price paid to a supplier by a customer. The supplier must account for this amount of GST to the Australian Taxation Office ('ATO'). If the supplier acquires goods or services as part of their business, they can claim a credit for the GST that has been included in the price. This is called an 'input tax credit' and refers to the credit applicable on business inputs.

The overall effect of the GST system is that the ultimate burden of the GST falls on end-users, or private consumers. Thus businesses that form part of the chain of supply act as collectors of the tax, but by virtue of the input tax credit mechanism they do not ultimately bear the burden of it.

It is much easier to understand the operation of the GST system in the context of an example. As the key

⁹ Has the meaning given by s 9-30(2) and Division 40.

¹⁰ Defined in s 195-1.

¹¹ Has the meaning given by s 9-30(1) and Division 38.

¹² Registration is covered by Part 2-5.

¹³ Initially set at \$50,000 per annum, or for non-profit

concepts have now been defined, a simple example follows to illustrate how the GST operates.

D. Example

John buys a woollen jumper from a retailer. The retailer acquired the jumper from a manufacturer of woollen jumpers, who acquired the wool from a wool merchant. The GST system would apply as follows:

1. The *wool merchant* sells the wool to the manufacturer for \$20 plus 10% GST (\$2). The manufacturer therefore pays the wool merchant \$22. When the wool merchant completes its GST return, it takes the GST on its sale (called output tax, \$2), subtracts any GST it paid for its business inputs (its input tax credits, in this case \$0) and sends the difference ($\$2 - \$0 = \$2$) to the ATO.
2. The *manufacturer* processes and treats the wool and makes the jumper, selling it to a retailer for \$50 plus 10% GST (\$5). The retailer therefore pays \$55 for the jumper. When the manufacturer completes its GST return, it takes the GST it collected from the sale to the retailer (\$5), subtracts the GST it paid for its business inputs (\$2 paid to the wool merchant on the purchase of the wool) and sends the difference ($\$5 - \$2 = \$3$) to the ATO. The ATO has therefore collected \$5 in total so far.
3. The *retailer* sells the jumper to John for \$90 plus 10% GST (\$9). John therefore pays \$99. When the retailer completes its GST return it takes the GST it collected from the sale to John (\$9), subtracts the GST paid to the manufacturer for the jumper (\$5), and sends the difference ($\$9 - \$5 = \$4$) to the ATO. The ATO has now collected \$9 in total.

This simple example shows that the total GST payable on the jumper was \$9, which represents the total amount sent to the ATO. It also shows that through the input tax credit mechanism, businesses did not bear the GST, which was ultimately borne by the final customer and included in part of the price paid.

Accounting for GST and the need for simplified accounting methods in the food retailing industry

In accounting for a GST it is important to appreciate that a business needs to distinguish between the different types of supplies as explained above – for example, between a GST-free supply, a taxable supply and a mixed supply. Businesses then need to separately record these sales, as their GST treatment differs (see explanation of supplies earlier in the article). This separate accounting places a considerable resource demand on businesses, and these demands were exacerbated as a result of amendments encountered as the legislation proceeded through Parliament. In particular, because basic food was excluded from the GST net, many food retailers could have many transactions across a range of GST-free, taxable and mixed sales. To make businesses in this situation separately record these sales, without adequate point-of-sale equipment, would have the effect of slowing down business as well as making the administration and accounting under the GST more complicated. These concerns are especially relevant for small businesses that do not have the necessary equipment and resources to accommodate these accounting requirements. It is against this background that the government decided to introduce simplified accounting methods and the operation of these methods is considered in the next part of the article.

Simplified accounting methods for qualifying retailers

bodies \$100,000 per annum: s 23-15.

Division 123 of the *GST Act* contains the rules governing the simplified accounting methods and s 123-1 defines the purpose of the rules as follows:

The Commissioner can create simplified accounting methods that some retailers can choose to apply with a view to reducing their costs of complying with the requirements of the GST.

The Commissioner of Taxation has set out his views regarding these methods in a booklet issued in June 2001.¹⁴ A summary explanation of the main features of the rules follows.

A. What types of businesses can use the simplified accounting methods?

Businesses are eligible to use a simplified accounting method if all of the following conditions are satisfied:

- The business is registered for GST – see definition of ‘registered entity’ earlier in the article.
- The business is a *retailer who sells both taxable and GST-free food* at the *same premises*.
- A businesses *annual turnover is not more than the relevant threshold* (\$1 million for the business norms method; \$2 million for the stock purchases and the snapshot methods – see point (b) below for an explanation of these methods).
- A business does not have *adequate point-of-sale equipment* to identify and record their mix of taxable and GST-free sales.

¹⁴ Commissioner of Taxation, ‘Simplified GST Accounting Methods for Food Retailers’ (Second Edition June 2001), http://www.taxreform.ato.gov.au/publications/2000/nat3185/index.htm#P445_28903. See also, Commissioner of Taxation, ‘Help for Food Retailers to Use Simplified Accounting Methods’ (Media Release Nat 01/22, March 2001), <http://www.ato.gov.au/printcontent.asp?doc=/content/corporate/mr200122.htm>. What follows on this point relies on these sources.

The Commissioner has given the following as examples of businesses that may qualify under the simplified accounting rules:¹⁵

- convenience stores
- milk bars, health food shops, pharmacies that sell food
- grocers and supermarkets
- bakeries and hot bread shops
- cake shops
- sandwich bars
- delicatessens
- takeaway outlets (including cafes and restaurants with takeaway sales)
- fresh fish retailers who sell cooked fish
- fish and chip shops (with fresh fish sales)
- butchers with some taxable sales, and
- other businesses retailing food including: video hire outlets, newsagents, kiosks, service stations and tuck shops.

B. What are the simplified accounting methods?

If a business qualifies as explained above, then three simplified GST methods are available:

1. **Business norms method** - where a business applies standard percentages to their sales and purchases to estimate their GST-free sales and purchases. Retailers who use this method must have an annual turnover that is \$1 million or less.
2. **Stock purchases method** - where businesses take a sample of purchases and use this sample to estimate their GST-free purchases and sales. Retailers who use this method must have an annual turnover that is \$2 million or less.

¹⁵ Ibid.

3. **Snapshot method** - where businesses take a snapshot of their purchases and sales to estimate their GST-free purchases and sales. Retailers who use this method must have an annual turnover that is \$2 million or less.

Businesses will need to choose which method best suits their individual circumstances and must notify the Commissioner of Taxation when they either choose to apply a simplified accounting method, or alternatively revoke a choice they previously made.¹⁶ It should be noted, however, that choices of methods cannot be revoked within 12 months of being elected.¹⁷

Conclusion

The GST has ushered in a new indirect tax system that will have far-reaching consequences for many retailers, who will have to deal with the complexities and administrative burdens associated with this new tax. In the retailing industry particular issues arise in connection with accounting for various supplies, especially in cases of businesses in the food industry, as different classifications are possible. These issues are particularly acute for small businesses that may have to separately account for their supplies in circumstances where they do not have adequate administrative systems, staff or equipment to make such accounting possible and cost-effective.

It is against this background that the government introduced the simplified accounting methods that have been explained in this article, and these rules are designed to reduce the administrative and compliance cost burden of accounting for GST by allowing qualifying retailers to estimate their GST-free sales and purchases rather than have to record these transactions separately as they occur.



¹⁶ Section 123-10.

¹⁷ Ibid.