



September 2018

E: advice@barrettwalker.com.au
www.barrettwalker.com.au

A: Suite 8, 150 Chestnut Street, Cremorne
P: (03) 9428 1033

Apportioning GST annually for business and private purchases

The general case regarding GST credits is that business owners can claim input tax credits relating to eligible business expenses when you lodge your business activity statement (BAS), which may be monthly or quarterly. However it is not unusual for business owners to occasionally make purchases that contain a private use component. Where expenses are partly for private use, only the proportion of credits relating to business use can be claimed.

When you can only claim a portion of a GST credit on a purchase, generally because the purchase is partly for business purposes and partly for private use, there are two ways of accounting for the GST credit:

- calculate the portion of GST credit that you are entitled to and claim it on your monthly or quarterly activity statement
- claim the entire GST amount as a credit on your monthly or quarterly activity statement and make a single annual adjustment at a later date.

This second option, with a single adjustment, is called annual private apportionment. This measure was introduced a few years ago to allow eligible taxpayers to claim the entire amount of input tax credits when lodging their monthly or quarterly BAS, both business and private, without apportioning for private use.

By electing to make an annual private apportionment of GST, you are choosing to account for the private portion of your business purchases once a year rather than each time you lodge an activity statement.

You can elect to make an annual private apportionment if both of the following apply:

- your business's annual turnover is \$10 million or less, or your (non-business) enterprise's GST turnover is \$2 million or less, and
- you have not elected to pay GST by instalments or report GST annually.

Annual private apportionment applies to all purchases that are made partly for business and partly for private purposes, unless:

- the business portion of the purchase relates solely to making input taxed supplies
- any part of the purchase is a "reduced credit acquisition" – that is, a purchase that relates to making financial supplies that you can claim a reduced GST credit for.

You must make any adjustments in a later activity statement to account for the portion of the purchase relating to private use. You can make the adjustment in any activity statement up to the one that covers the due date for lodging your income tax return. This means you can apportion for private use for both GST and income tax purposes at the same time.

The ATO expects however that a business that has elected to make annual private apportionments for GST must re-assess its eligibility for it on 31 July each year.

Your adjustment will either increase the amount of GST you are liable to pay or reduce your GST refund for the tax period you make the adjustment in.

If eligible, you can choose to use annual private apportionment at any time — for example, you can start at the beginning of the next tax period for which an activity statement is due. You do not need to notify the ATO if you choose to use annual private apportionment, but you must keep records that include the date you chose annual private apportionment and the date it took effect.

If you make input-taxed financial supplies as a minor part of your business you can use annual private apportionment for your purchases that relate to making those supplies as long as you do not exceed the financial acquisitions threshold.

Important: Clients should not act solely on the basis of the material contained in Client Alert. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. Client Alert is issued as a helpful guide to clients and for their private information. Therefore, it should be regarded as confidential and not be made available to any person without our prior approval.