



GST and annual private apportionment



Terms we use

When we say:

- **purchase**, we are referring to the GST term **acquisition**
- **GST credit**, we are referring to the GST term **input tax credit**, and
- **payments** made or received, we are referring to the GST term **consideration**.

Private use apportionment

If you are carrying on an enterprise, you may purchase something partly for business purposes and partly for private use. Under GST law, you can only claim a GST credit for the portion of your purchase that is for business purposes. The amount of GST credit you claim can be worked out by:

- estimating the portion of intended private use and reducing the amount of GST credit you claim in your activity statement accordingly, or
- if eligible, claiming in your activity statement a GST credit for all the GST included in the purchase price and later making a single annual increasing adjustment to account for the private portion of all business purchases. This is Annual Private Apportionment.

How does annual private apportionment work?

If eligible, you can make an annual private apportionment election. This means you will not need to estimate the portion of intended private use of your purchase when claiming your GST credit. Generally, under this election, you may claim a GST credit for the total amount of GST included in the price of the purchase.

You will then need to make a single adjustment after the end of your income year to account for the private portion of all of these purchases. This adjustment will increase the amount of GST you are liable to pay (or reduce your GST refund) for the tax period in which you make the adjustment.

Who can make an annual private apportionment election?

You can make an annual private apportionment election if:

- your annual turnover, calculated at the time you make your election, is \$2 million or less, and
- you have not elected to pay GST by instalments or report GST annually.



You must re-assess your eligibility to use annual private apportionment on 31 July in each year.

How do i make an annual private apportionment election?

If you are eligible, you can make an annual private apportionment election at any time. Your election will take effect from the beginning of the earliest tax period for which your activity statement is not yet due. This election will continue to apply until you cancel your election, we disallow your election or you exceed the annual private apportionment turnover threshold on 31 July in any year (refer to 'How can I stop using annual private apportionment?' below for more information).

You do not need to notify us when you make an annual private apportionment election, but you must keep a record of your election (for example, a file note) detailing the date the election was made and the date it took effect.

If you want your election to take effect from a different date you must write to us and include the name of your business, your ABN, the date you would like your election to take effect, a brief reason for your request, and you must sign your request. The date of effect **must** be the first day of a tax period that applies to you.



Note: the earliest date an annual private apportionment election can take effect is 1 October 2004 if you report GST quarterly, or 1 November 2004 if you report GST monthly.



You can submit your request to us at **PO Box 9935 in your capital city**.

Following our approval of your request, your previous activity statement or statements may need to be revised and amounts refunded accordingly.

Example 1: Date of effect of annual private apportionment election

If you report and pay GST monthly, your November activity statement will be due on 21 December. Therefore, if you make an annual private apportionment election at any time between 22 November and 21 December, your election will take effect from 1 November.

What purchases are covered by annual private apportionment?

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, or
- any part of the purchase is a reduced credit acquisition. A reduced credit acquisition is a purchase that relates to making financial supplies for which you can claim a reduced GST credit.

You cannot apply annual private apportionment to a purchase that is used solely:

- for private purposes, or
- to make input taxed supplies.

How do I calculate my GST credits under annual private apportionment?

If you have made an annual private apportionment election, you can generally claim a GST credit for the total amount of GST included in the price of your business related purchases.

However, if a business related purchase relates partly to making input taxed supplies, or you only provide (or are liable to provide) part of the payment for the purchase, you must use the following formula to work out your GST credit:

(full GST credit) x (extent of non-input-taxed purpose) x (extent of consideration) = claimable GST credit

For the purposes of this calculation:

- **full GST credit** is the amount of the GST credit you would be eligible to claim if:
 - you made the purchase solely for business purposes
 - you provided (or were liable to provide) all of the payment for the purchase, and
 - the purchase did not relate to making input taxed supplies
- **extent of non-input-taxed purpose** is the portion of the purchase that does **not** relate to making input taxed supplies, expressed as a percentage of the total purpose of the purchase, and
- **extent of consideration** is the amount you pay (or are liable to pay) for the purchase, expressed as a percentage of the total purchase price.

Example 2: Amount of GST credit

Harry is registered for GST and lodges his activity statement on a quarterly basis. Being eligible he has made an annual apportionment election. He purchases telephone services from a local telephone company. Harry pays \$220 for these services including \$20 GST. He anticipates his phone use will be 30% business and 70% private. The business component does not relate to making input taxed supplies.

As Harry has made an annual private apportionment election, he can claim a \$20 GST credit for the purchase in the first activity statement he lodges after receiving a valid tax invoice for the purchase.

If Harry had not made an annual private apportionment election, he would only be entitled to a GST credit of \$6 (30% of \$20).

As Harry has claimed a \$20 credit he will need to make an increasing adjustment at a later date - see example 4 and 5.

Example 3: Amount of GST credit if the purchase relates to making input taxed supplies

Mary carries on several enterprises, one of which involves renting out residential premises (the supply of residential premises by way of rent is input taxed). Mary has made an annual private apportionment election.

Mary purchases telephone services from a local telephone company. She pays \$220 for these services including \$20 GST and she is liable to pay the full purchase price. Mary anticipates that she will use the services for:

regular business activities (30%)

private purposes (55%), and

her supply of residential premises (15%).

Mary's GST credit must take into account the extent the services relate to the supply of her rental property so she must use the formula:

(full GST credit) x (extent of non-input-taxed purpose) x (extent of consideration)

$\$20 \times 85\% \times 100\% = \17

Therefore, Mary can claim a GST credit of \$17.

When do I make my annual increasing adjustment?

You must make your annual increasing adjustment in:

- your activity statement that covers the period when your income tax return (for the income year that covers the tax period in which you claimed your GST credit) is due, or
- an earlier activity statement.

Example 4: When to make your annual increasing adjustment

Harry from example 2 claims his full GST credit in the 1 July to 30 September 2005 quarterly tax period.

Harry is required to lodge an income tax return for the period 1 July 2005 to 30 June 2006. The due date for this income tax return is 31 October 2006. This due date falls within Harry's tax period which spans 1 October to 31 December 2006.

Harry is therefore required to make his annual increasing adjustment in the activity statement which covers the tax period 1 October to 31 December 2006.

If you are not required to lodge an income tax return, you must make your annual increasing adjustment in your activity statement for the tax period spanning 31 December of the financial year that starts after the tax period in which you claimed the full GST credit.

In certain circumstances your annual increasing adjustment will need to be brought forward to a specific tax period. Your annual increasing adjustment will need to be made in the activity statement that relates to your concluding tax period if:

- you cease to carry on an enterprise
- your registration is cancelled

- you go into liquidation, receivership, or cease to exist
- you become bankrupt, or
- you die.

If your election is cancelled or disallowed, you must make your annual increasing adjustment in your activity statement for the tax period in which the cancellation or disallowance takes effect. However, if the cancellation or disallowance takes effect from 1 July in any year, your annual increasing adjustment will be made at the time you would have made it had your election not been cancelled or disallowed.



Note: this section explains the **latest** activity statement in which you can make your adjustment. However, you can make your annual increasing adjustment in an **earlier** activity statement than those outlined above if you wish.

How do I calculate my annual increasing adjustment?

The amount of your adjustment will equal the amount of the GST credit you have received (or will receive) for your purchase, less the amount of the GST credit you would have received if you had not made an annual private apportionment election.

If you have applied annual private apportionment to several purchases, you will be required to calculate an annual increasing adjustment for each purchase, add the adjustments together and report the total in the relevant activity statement.

Example 5: Calculating your annual increasing adjustment

Harry from example 2 calculates his annual increasing adjustment as follows:

Initial GST credit entitlement	\$20
Less amount that Harry would have been entitled to claim if he had not made an annual private apportionment election	\$6
Annual increasing adjustment	\$14

Note that after the annual increasing adjustment has been accounted for, Harry would have received an amount in respect of the purchase (\$20-\$14) that is equal to the amount he would have received if he had not made an annual private apportionment election (\$6).

Presume that Harry is also required to make an annual increasing adjustment of \$10 to account for a computer that he purchased partly for private purposes. Harry adds together the two amounts and reports the total of \$24 (\$14 + \$10) in the appropriate activity statement.

In calculating your annual increasing adjustment, you must take into account certain other adjustments, if any, that you have made with respect to your purchase (such as adjustments that have arisen due to a change in the purchase price or instances where the supplier has written off a bad debt).

Example 6: Calculating your annual increasing adjustment for a purchase for which you have had previous adjustments.

Ron is registered for GST and has made an annual apportionment election. He purchases an item partly for business purposes not related to making input taxed supplies (10%) and partly for private purposes (90%). The purchase price is \$1,100. After receiving a valid tax invoice, Ron claims a GST credit of \$100.

Before Ron makes his annual increasing adjustment, the price of the item increases by \$110. As a result, Ron must pay a total of \$1,210 for the item. Included in this amount is \$110 GST ($1/11 \times \$1,210$). Ron must make a decreasing adjustment of \$10 to account for the fact that he has only claimed a GST credit of \$100. Ron makes this decreasing adjustment in the activity statement that covers the date on which he receives an adjustment note relating to the price increase.

The annual increasing adjustment

To work out his annual increasing adjustment, Ron must subtract the amount he would have received if he did not elect annual private apportionment from the amount he did receive. These amounts must take into account both the GST credit Ron claimed and the decreasing adjustment that he made due to the price increase.

Step 1: Determining the amount Ron received

Initial GST credit	\$100
+ decreasing adjustment	\$10
= total amount Ron received for his purchase	\$110

Step 2: Determining the amount Ron would have received

Ron purchased the item only partly for business purposes (10%). If he had not elected annual private apportionment, he would have received a GST credit and a decreasing adjustment only for the business portion of the GST included in the original purchase price and the subsequent price increase.

Initial GST credit Ron would have received ($\$100 \times 10\%$)	\$10
+ decreasing adjustment Ron would have received ($\$10 \times 10\%$)	\$1
= total amount Ron would have received for his purchase	\$11

Step 3: Calculating the amount of the annual increasing adjustment

Amount Ron received	\$110
- Amount Ron would have received	\$11
= Amount of the annual increasing adjustment	\$99

Note that the GST credit Ron received (\$100) plus the decreasing adjustment he had (\$10) minus the annual increasing adjustment (\$99) equals the total amount Ron would have received if he did not have an annual private apportionment election in effect (\$11).

Example 7: Calculating adjustments after you have made your annual increasing adjustment.

After making his annual increasing adjustment, Ron (from example 6) receives a rebate of \$220 for the item he purchased. After the rebate, Ron has effectively paid a total of \$990 for his purchase (\$1,210 - \$220). Included in this amount is \$90 GST. As Ron purchased the item partly for business purposes not related to making input taxed supplies (10%) he is entitled to an amount of \$9 ($10\% \times \90 GST included in the amount he paid).

The increasing adjustment is calculated as follows

GST credit and previous adjustments Ron has received (refer to example 6)	\$11
Less the amount Ron is actually entitled to	\$9
Increasing adjustment	\$2

Ron is required to make the increasing adjustment in the activity statement that covers the date on which he became aware of the rebate.

After making an annual increasing adjustment you may later need to make further adjustments to account for changes in private purpose if:

- your actual private use of the purchase differs from the estimate of private use you used to calculate your annual increasing adjustment, and
- your purchase had a GST-exclusive value of more than \$1,000.



For more information, refer to:

- Goods and Services Tax Ruling GSTR 2000/24 Division 129 - making adjustments for changes in extent of creditable purpose, and
- Goods and Services Tax Ruling GSTR 2000/15 - determining the extent of creditable purpose for claiming input tax credits and for making adjustments for changes in extent of creditable purpose

How can I stop using annual private apportionment?

Your annual private apportionment election will apply indefinitely unless:

- **you cancel your election**

You can cancel your election at any time. If you do, the cancellation will take effect from the beginning of the earliest tax period for which your activity statement is not yet due.

You do not need to notify us of your decision, but you must keep a record of your cancellation (for example, a file note) detailing the date you decided to stop using annual private apportionment.

You must make any outstanding annual increasing adjustments in the same tax period in which your cancellation takes effect or such earlier tax period as you choose, unless the cancellation takes effect from 1 July in any year. If your cancellation takes effect from 1 July, you must make your outstanding annual increasing adjustment at the time you would have made it had your election not been cancelled.

- **we disallow your election**

We can disallow your election if you have failed to comply with one or more of your tax obligations. Your election will cease to have effect from the start of the tax period in which you are notified of the disallowance.

You must make any outstanding annual increasing adjustments in the same tax period in which the disallowance takes effect or such earlier tax period as you choose, unless the disallowance has effect from 1 July in any year. If the disallowance takes effect from 1 July, you must make your outstanding annual increasing adjustment at the time you would have made it had your election not been disallowed.



Disallowing your election is a reviewable GST decision.

- **you exceed the annual private apportionment turnover threshold**

If on 31 July your annual turnover exceeds \$2 million, your election is taken to have ceased from the start of the tax period in which 31 July falls, normally 1 July. You must make any outstanding annual increasing adjustment at the time you would have made it had your turnover not exceeded the apportionment turnover threshold.

Example 8: Date that your election ceases

Sarah lodges her activity statement on a quarterly basis. She must lodge her 1 January to 31 March activity statement on or before 28 April.

Sarah cancels her annual private apportionment election on 25 April.

As, on 25 April, Sarah's activity statement is not yet due, the cancellation will take effect from the beginning of the tax period to which her activity statement relates (that is, from 1 January).

Sarah will complete her activity statement for the 1 January to 31 March quarter as if the election has been cancelled from the start of that quarter. Sarah accounts for her outstanding annual increasing adjustment in her activity statement for that quarter.

Can annual private apportionment be applied to importations?

Annual private apportionment applies to importations in much the same manner as it does to purchases. Under annual private apportionment, the amount of the GST credit you are entitled to for an importation that you make partly for business and partly for private purposes is determined in accordance with the following formula:

(full GST credit) x (extent of non-input-taxed purpose) = claimable GST credit

For the purposes of this calculation:

- **full GST credit** is the amount of the GST credit you would have been eligible to claim if:

- you made the importation solely for business purposes
- the importation did not relate to making input taxed supplies
- **extent of non-input-taxed purpose** is the portion of the importation that does **not** relate to making input taxed supplies, expressed as a percentage of the total purpose of the importation.



The amount of consideration you provide or are liable to provide for the importation is not relevant.

The annual increasing adjustment relating to importations is calculated in the same manner as for purchases.

Special rules for annual private apportionment

Some special rules apply when using annual private apportionment for cars, insurance and GST groups.

Cars

If you purchase a car, your GST credit is limited to one-eleventh of the luxury car tax threshold.



For threshold limits refer to *Luxury Car Tax fact sheet* (NAT 2963).

Insurance

Where you make a claim under an insurance policy, you still need to advise the insurer of your actual input tax entitlement for the insurance premium as if your annual private apportionment election did not apply. This allows the insurer to work out its own entitlement to claim an adjustment arising on any settlement of a claim under your insurance policy.

GST groups

The representative of a GST group can only make an annual private apportionment election if each member of the group satisfies the eligibility criteria.

Any decision made by the representative member to use annual private apportionment, or to no longer use it, is taken to have been made by each member of the GST group.



More information

For more information about claiming GST credits and calculating and reporting private-use proportions for GST purposes, refer to:

- Input tax credits for business (NAT 3019)
- GST and motor vehicles (NAT 4629), and
- Goods and Services Tax Ruling GSTR 2000/15 Goods and services tax: determining the extent of creditable purpose for claiming input tax credits and for making adjustments for changes in extent of creditable purpose.

For a copy of these publications or other information:

- visit our website at www.ato.gov.au
- phone **13 28 66**
- obtain a fax by phoning **13 28 60**, or
- write to us at **PO Box 9935 in your capital city**.

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service on **13 14 50** for help with your call.

If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**. If you do not have access to TTY or modem equipment, phone the Speech to Speech Relay Service on **1300 555 727**.

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