Business asset transactions

Detailed information about GST and business asset transactions.

GST and floating a company

Explains GST issues when you float a company.

Mergers and acquisitions - claiming input tax credits

The entitlement of an entity to claim input tax credits for acquisitions associated with merger and acquisitions activity.

GST and the disposal of capital assets

How to account for GST when disposing of capital assets.

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GST and the disposal of capital assets

How to account for GST when disposing of capital assets.

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A capital asset is an asset retained by an enterprise for the purpose of earning revenue. A capital asset is not intended for sale in the ordinary course of business.

Capital assets include things like:

- motor vehicles
- manufacturing machinery
- office equipment
- land and buildings.

If you sell, transfer or otherwise dispose of a capital asset, and you're registered or required to be registered for GST, it's generally a taxable sale and you need to account for GST on the sale.

You must report the payment (or other consideration) you receive at **G1** (total sales) on your activity statement for the relevant tax period.

See also:

- GSTR 2001/7 *Goods and services tax: meaning of GST turnover, including the effect of section 188-25 on projected GST turnover*, paragraphs 31-36

When to charge GST (and when not to)

You charge GST, and account for GST on your activity statement, if you:

- sell, trade-in or otherwise transfer ownership of a capital asset in Australia
- are registered or required to be registered for GST

This applies even if the asset was purchased before 1 July 2000 or the asset is sold to a person who is not in business (a private sale).

You don’t charge GST when you dispose of a capital asset if it is:

- not a business asset – for example, your family car that hasn't been used in your business
- part of a business sold as a GST-free going concern
- residential premises – for example, a block of residential apartments (this doesn't apply to new residential premises or commercial premises)
- farm land – it must be land on which a farming business has been carried on for at least five years before the disposal, and the purchaser must intend that the land will continue to be used for a farming business.

Find out about:

- Non-profit organisations
- Disposing of property
- Effect on registration turnover threshold

See also:

- GSTR 2002/5 *Goods and services tax: when is a 'supply of a going concern' GST-free?*

Non-profit organisations

If you're an endorsed charitable institution, an endorsed trustee of a charitable fund, a gift-deductible entity or a government school (or a non-profit sub-entity of one of these organisations), and you dispose of a capital asset, the disposal will be GST-free if the payment or consideration you receive is either:

- less than 50% of the GST-inclusive market value of the asset
- less than 75% of the amount you paid (or were liable to pay) to purchase the asset being sold. This is generally the original cost of the asset.

See also:

- GST concessions

Disposing of property

If the capital asset is real property, you must account for GST unless the disposal is a GST-free or input taxed sale. Real property includes:

- an interest in land or a right over land – for example, easements
- a personal right to be granted such rights or interests – for example, options
- a licence to occupy land
- any other contractual right exercisable in relation to land – for example, a restrictive covenant.

See also:

- GST and property
- GST and the margin scheme

Effect on registration turnover threshold

You have to register for GST if your current or projected GST turnover meets the turnover threshold of $75,000 (or $150,000 for non-profit bodies).

In working out your projected GST turnover, you don't include amounts received for capital asset disposals.

So if you're not registered for GST, you don't have to register merely because the sale proceeds of a capital asset take you over the turnover threshold.

See also:

- [Assets held when GST registration cancelled]
- [Decreasing adjustments]

Assets held when GST registration cancelled

If you cancel your GST registration and you still hold capital assets on which you've claimed GST credits, you have to repay some of the credits. You do this my making an increasing adjustment on your final activity statement. The increasing adjustment takes into account the market value and percentage of business use of the assets at the time your GST registration is cancelled.

The GST payable is:
1/11 × market value of the asset × percentage of business use

Example: Calculating an increasing adjustment

Mr Sample ceases business and cancels his GST registration. He has a motor vehicle on hand that has a market value of $22,000. Mr Sample claimed GST credits for this motor vehicle in an earlier activity statement. The vehicle is used 80% for business purposes.

The GST payable by Mr Sample is:

(1÷11) × $22,000 × 80%	= $1,600

Decreasing adjustments

You may be entitled to a decreasing adjustment when you dispose of a capital asset if it was used:

- solely or partly for making financial supplies, or
- partly for private or domestic purposes.

The decreasing adjustment doesn't reduce the amount of GST payable on the sale of the asset, but reduces the net amount of GST you're liable to pay for the tax period.

You apply the decreasing adjustment in the same tax period as the GST is payable on the sale of the asset.

Find out about:

- Calculating the adjustment
- Capping rule
- When decreasing adjustment doesn't apply

See also:

- Financial supplies

Calculating the adjustment

Use the following formula to calculate the amount to reduce the GST payable:
1/11 × price × (1 − adjusted GST credit ÷ full GST credit)

Where:

- **price** is the price for which you sell the capital asset
- **adjusted GST credit** is the GST credit you claimed when you acquired the capital asset, plus or minus any other adjustments you subsequently made for the purchase
- **full GST credit** is the GST credit you would have been entitled to claim if you had purchased the capital asset solely for use in your business, but not for making input taxed supplies.

The adjustment is capped – it can't be more than the difference between the full GST credit and adjusted GST credit.

Example: Capital assets used for private purposes

Ian runs a plumbing business and is registered for GST. He buys a vehicle for $44,000 (including $4,000 GST). Ian plans to use the vehicle 80% for his business and 20% for private purposes, so he claims a GST credit of $3,200 (that is, 80% of the GST included in the purchase price). He doesn't make any adjustments to this purchase.

Ian later sells the vehicle for $22,000 (including $2,000 GST) and the sale is a taxable sale.

Ian is entitled to a decreasing adjustment because he couldn't claim a full GST credit when he bought the vehicle, as it was partly for private use.

Ian calculates the decreasing adjustment as follows:

1/11 × $22,000 × (1 − $3,200÷$4,000)	= $2,000 × (0.2) = $400

Ian claims the decreasing adjustment of $400, which reduces the net amount of GST payable.

Example: Capital assets used to make financial supplies

A credit union buys a building for $110 million (including $10 million GST). It plans to use the building 60% for making financial supplies and 40% for taxable business activities, so claims a GST credit of $4 million (that is, 40% of the GST included in the purchase price). The credit union doesn't make any other adjustments for this purchase.

The credit union later sells the building for $99 million (including $9 million GST) as a taxable sale. It is entitled to a decreasing adjustment as it couldn't claim a full GST credit when it bought the building, as the building was used partly for making financial supplies.

The credit union calculates the decreasing adjustment as follows:

1/11 × $99 million × (1 − $4 million÷$10 million)	= $9 million × 0.6 = $5.4 million

The credit union claims the decreasing adjustment of $5.4 million, which reduces the net amount of GST payable.

Capping rule

If the decreasing adjustment on the sale of a capital asset is more than the difference between the full GST credit and the adjusted GST credit, you can reduce the GST only by that difference.

Example: Capping the decreasing adjustment

A credit union buys a building for $110 million (including $10 million GST). It plans to use the building 60% for making financial supplies and 40% for taxable business activities, so claims a GST credit of $4 million (that is, 40% of the GST included in the purchase price). The credit union doesn't make any other adjustments for this purchase.

The credit union later sells the building for $121 million (including $11 million GST) as a taxable sale. It calculates the decreasing adjustment as follows:

1/11 × $121 million × (1 − $4 million÷$10 million)	= $11 million × 0.6 = $6.6 million

The difference between the full GST credit and the adjusted GST credit was $6 million ($10 million – $4 million). Even though the decreasing adjustment calculation resulted in an amount of $6.6 million, the credit union must cap the decreasing adjustment at $6 million.

When decreasing adjustment doesn't apply

You're not entitled to the decreasing adjustment on the sale of any of the following:

- a capital asset purchased before 1 July 2000
- a capital asset purchased before an entity is registered
- a capital asset purchased from a non-registered entity
- a motor vehicle for which GST credits were disallowed because of the GST transitional rules.

See also:

- GSTR 2004/8 *Goods and services tax: when does an entity have a decreasing adjustment under Division 132?*

Financial supplies

Financial supplies are input taxed.

For the purposes of decreasing adjustments on capital assets, financial supplies include the:

- lending or borrowing of money
- buying or selling of shares or other securities
- creation, transfer, assignment or receipt of an interest in, or a right under, a super fund
- provision or receipt of credit under a hire purchase agreement entered into before 1 July 2012, if the credit is provided for a separate charge that is disclosed to the purchaser.

However, for a hire purchase agreement entered into on or after 1 July 2012, all components of supplies under the agreement are considered taxable supplies, whether or not the interest charge is separately identified and disclosed.

See also:

- GST

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