GST and floating a company

Explains GST issues when you float a company.

Last updated 10 April 2017

You float a company when you list its shares on a public stock exchange.

When you float a company, special rules apply to claiming GST credits for the GST included in the price of purchases you make to supply the securities.

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Securities

See how we define securities and when GST applies.

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For GST purposes, securities include (among other things):

- debentures, stocks or bonds a company issues
- debentures, stocks or bonds a government entity issues or plans to issue
- documents an individual issues that would be debentures if a body corporate issued them
- interests in a managed investment scheme.

See also:

- Definition of 'securities' in **GSTR 2002/2** *Goods and services tax: GST treatment of financial supplies and related supplies and acquisitions* ('Glossary of terms' in Schedule 1)

Financial supplies

A supply you make is a financial supply only if it is listed as a financial supply (or an incidental financial supply) in the GST Regulations. The supply of securities is:

- a financial supply
- input taxed unless it is GST-free.

GST and securities you supply

Supplying securities when you float a company can be any of the following:

- input taxed if you supply them to Australian residents, for example, if you issue the shares domestically
- GST-free if you issue them to non-residents outside the indirect tax zone
- a combination of both if you issue them to Australian residents and to non-residents outside the indirect tax zone.

You do not include GST in the price of a supply if it is input taxed or GST-free.

However, the GST treatment of your supply of securities can affect whether you can claim GST credits on purchases you use to supply your securities.

As a general rule, under GST law, you cannot claim GST credits for GST you pay in the price of purchases that relate to making input taxed supplies. However, there are some exceptions to this general rule.

See also:

- GSTR 2006/3 *Goods and services tax: determining the extent of creditable purpose for providers of financial supplies*

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Purchases you make during a floatation

Find out if you can claim a GST credit for purchases relating to floating a company.

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If you make purchases relating to floating a company you generally cannot claim a GST credit for the GST you pay on those purchases because they are related to making an input taxed financial supply of securities.

However, if you do not exceed the financial acquisitions threshold you may still be able to claim a GST credit for the GST you pay on these purchases, even though you use them to make financial supplies.

If you exceed the financial acquisitions threshold you cannot claim GST credits on purchases you use to make financial supplies, but you may be able to claim a reduced GST credit on those purchases if they are reduced credit acquisitions.

Financial acquisitions threshold

A financial acquisition is a purchase that you use for making a financial supply (other than a financial supply which is a borrowing).

The financial acquisitions threshold exists to allow entities that make a relatively small amount of financial supplies, as compared to their taxable supplies or GST-free supplies, to claim full input tax credits relating to those financial acquisitions.

If you do not exceed the financial acquisitions threshold, you will be entitled to full input tax credits for your acquisitions relating to financial supplies.

There are two tests you can use to see if you exceed the financial acquisitions threshold. You may exceed the threshold under either test. Both tests are based on financial acquisitions you make.

See also:

- Charging GST and claiming GST credits – Financial acquisitions threshold for tests you can use to see if you exceed the financial acquisitions threshold
- GSTR 2003/9 *Goods and services tax: financial acquisitions threshold*

- Financial services – questions and answers (Financial acquisitions threshold)

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Purchases and financial supplies

Work out if your purchase is related to making a financial supply.

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To work out if your purchase is related to making a financial supply, you must consider whether there is a sufficient connection between the purchase and the financial supply, the timing of the purchase and how much the purchase relates to making a financial supply.

Connecting purchases and financial supplies

There is a sufficient connection between a purchase and a financial supply where you use or intend to use the purchase solely or partly to make a financial supply.

Purchases can be either of the following:

- directly related to making a particular supply (for example, brokerage)
- indirectly related to making a supply (for example, overheads).

As long as there is a sufficient connection between a purchase and the making of a particular financial supply, you treat the purchase as a financial acquisition whether it is directly or indirectly related to the making of that financial supply and regardless of the end purpose of making that financial supply.

Overhead purchases such as rent, gas, electricity and fittings, although not directly connected with making individual supplies, may relate indirectly to making those supplies.

You must allocate the overhead purchases indirectly related to making supplies according to:

- their character
- your apportionment method.

See also:

- GSTR 2008/1 *Goods and services tax: when do you acquire anything or import goods solely or partly for a creditable purpose?*
- GSTR 2003/9 *Goods and Services Tax: financial acquisitions threshold*.
- GSTR 2006/3 *Goods and services tax: determining the extent of creditable purpose for providers of financial supplies*.

Timing of purchases and financial supplies

The timing of purchases you use to make financial supplies is important. This is because a purchase relates to making a financial supply if you use it to do either of the following:

- make an actual financial supply
- plan to make or consider making a financial supply.

Any of the following may show there is a relationship between a purchase and a financial supply you make:

- a business plan
- an accounting budget
- previous experience using similar purchases
- correspondence with third parties about a proposed financial supply, for example

  - a mandate
  - letter of engagement
  - resolution passed by the board of directors
- activities (such as ordering a prospectus to be printed).

However, if a purchase is clearly for making a financial supply, it is a financial acquisition even if the relationship between the purchase and the financial supply is not shown in any of the indicators above.

Changing your plans to float

If you change your plans on whether or not to float you work out the financial acquisitions threshold differently from the time you make that decision.

If your plan was to use your purchase to make supplies other than financial supplies, but you later used the purchase to make financial supplies, your purchase becomes a financial acquisition from the time you decide to use the purchase to make financial supplies.

In these circumstances do not recalculate the financial acquisitions threshold tests you did in the tax periods before you changed your plans on how to use the purchase. The financial acquisitions threshold tests are based on your circumstances at that time. Subsequent events do not change the outcome of financial acquisitions threshold tests you did before.

If the way you use a purchase changes from the way you planned to use it, you may need to make an adjustment for a change in creditable purpose.

See also:

- Making adjustments on your activity statements

How to treat progressive or periodic purchases

Under GST law there are special rules for treating progressive or periodic purchases. Those rules say that supplies and purchases you make periodically or progressively in return for payments that are also made periodically or progressively are treated as separate supplies or purchases.

If you purchase a financial acquisition over time and the special rules apply, you treat each progressive or periodic purchase as if each is a separate purchase.

In these circumstances, when you are working out whether you exceed the financial acquisitions threshold for a particular tax period, only include the amount of GST credits you can claim for each purchase during that time.

See also:

- Progressive or periodic sales and purchases

How much of a purchase relates to financial supplies

A purchase may relate to making any of the following or a combination of the following types of supplies:

- input taxed supplies
- taxable supplies
- GST-free supplies.

To work out the amount of input tax credits you can claim on your purchase, you must work out how much of your purchase relates to a particular supply you make.

You can use one of the following methods or a combination of these:

- direct attribution
- direct estimation
- indirect estimation.

The methods you use must be fair and reasonable and appropriately reflect how you use a purchase.

We prefer that you use direct attributions and direct estimations, but where it is not possible to use these methods you may use an indirect estimation that is fair and reasonable.

See also:

- GSTR 2006/3 *Goods and services tax: determining the extent of creditable purpose for providers of financial supplies*

Direct attribution

A direct attribution method identifies a direct connection between your purchases and supplies or other business activities on a fair and reasonable basis.

Direct estimation

This method:

- estimates how much a purchase is directly connected to supplies
- usually matches the cost of certain purchases solely to particular activities.

You can also use a direct estimation method to allocate mixed purpose costs to particular supplies according to an internal cost allocation system. Such a system could be one that allocates costs to any of the following:

- specific transactions, product lines, functions or activities
- cost centres, profit centres or business divisions.

If you already use a system like this as part of your accounting processes you may want to take the same approach to apportion for GST.

Indirect estimation

This method estimates how much a purchase is connected to a supply by taking into account factors or characteristics that are not directly related to the way you use the particular purchase.

General revenue formula

One method you can use is the general revenue formula.

You might use the general revenue formula where you may have to estimate how much the cost of overheads, such as gas and electricity, is connected to a supply. You could work out the proportion of your input taxed and non-input taxed income and use that information to work out how to allocate your overhead expenses.

For example, the general revenue formula is an appropriate method for Cindy's business. Cindy works out:

- that 45% of her company's income is from input taxed activities

- that 55% is from non-input taxed activities.

Cindy estimates that 45% of the cost of her overheads is connected with making input taxed supplies.

You can also use the general revenue formula where you make a large number of small purchases and it is not cost effective to measure how you use each individual purchase.

Other indirect estimation methods

You may use other indirect measures where the general revenue formula is not appropriate, for example:

- number of transactions
- floor space
- profits
- hours.

Use the measure that is the most accurate in showing the relationship between your activities and the purchase. The way you work this out must be fair and reasonable.

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GST credits and reduced credit acquisitions

Find out if you can claim GST credits or reduced credit acquisitions.

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Claiming GST credits

Generally, if you do not exceed the financial acquisitions threshold you can claim full GST credits on purchases you use to make financial supplies.

You may also be able to claim full GST credits on your purchases if you use them to make GST-free supplies of shares to non-residents.

However, you cannot claim full GST credits if both of the following apply:

- your purchases relate to making financial supplies
- you exceed the financial acquisitions threshold.

In this situation, you may be able to claim reduced GST credits on certain purchases if they are reduced credit acquisitions.

Reduced credit acquisitions

Reduced credit acquisitions are certain types of purchases listed in the GST regulations that you can claim a reduced GST credit on when you use them to make financial supplies.

Generally, you can claim 75% of any GST included in the purchase price of a reduced credit acquisition.

You can claim reduced GST credit on reduced credit acquisitions that relate to floating your company. Some examples are listed in the following table.

See also:

- A New Tax System (Goods and Services Tax) Amendment Regulation 2012 (No. 1)
- GSTR 2004/1 *Goods and services tax: reduced credit acquisitions* for a complete list of items that are reduced credit acquisitions

GST treatment of purchases that relate to making financial supplies

Find out the GST status and whether reduced GST credits are available for purchases.

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Table: Flotation

Supply	GST status	Reduced GST credits available?
Professional advice on whether or not to float your company	Taxable	No.
Fees and charges for advice, research, information, analysis or other similar services about corporate restructuring	Taxable	No – this does not form part of the arrangement of providing an interest in a security. For more information, refer to line J13 in GSTR 2002/2.
Due diligence, expert reports, for example investigating accountants, independent review of director's forecasts, valuations and ratings	Taxable	No – unless it forms part of the service of arranging the float.
Services connected with arrangement of the float	Taxable	Yes.

Table: Prospectus costs

Supply	GST status	Reduced GST credits available?

Legal and accounting advice	Taxable	No
Art and design work	Taxable	No
Printing costs	Taxable	No
Mailing costs	Taxable	No

Table: Listing and supply of shares

Supply	GST status	Reduced GST credits available?
Marketing and promotional activities by company representatives	Taxable	No
Marketing and promotional activities provided by the entity arranging the float	Taxable	Yes – it forms part of the service of arranging the float.
Brokerage	Taxable	Yes
Share registry services for the float	Taxable	Yes
Underwriting shares as a financial supply provider	Input taxed	Not applicable
Best endeavours underwriting	Taxable	Yes
ASX membership and listing fees	Taxable	No
ASIC document lodgment fees	No GST applicable	Not applicable

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