GST and second-hand goods – completing your activity statement

How to calculate and report goods and services tax (GST) on sales and purchases of second-hand goods.

TERMS WE USE
When we say:
- purchases we are referring to the GST term acquisitions
- GST credits we are referring to the GST term input tax credits
- reporting period we mean the tax period that applies to you
- payment made or received, we are referring to the GST term consideration, and
- business we are referring to the GST term enterprise.

HOW DO I COMPLETE MY ACTIVITY STATEMENT?
You may use either the accounts method or the calculation worksheet method to complete the relevant GST boxes on your activity statement for the reporting period.

The amounts you report on your activity statement will depend on the accounting basis you have chosen or are otherwise required or permitted to use. You can account on a cash basis or a non-cash basis. Refer to the rules set out in this document when accounting for purchases and sales of second-hand goods using either accounting method.

HOW DO I WORK OUT MY GST CREDITS?
You can claim GST credits for your purchases of second-hand goods even if the price you paid did not include GST. You can do this for second-hand goods that you purchase for resale from sellers who do not charge GST in the price of the goods.

There are two ways to calculate these GST credits:
- the direct approach, or
- the global accounting method.

The system you use depends on whether you sell the second-hand goods as single items, or divide them into separate parts.

WHEN CAN I USE THE DIRECT APPROACH?
You can use the direct approach to calculate and claim GST credits on your purchase of second-hand goods where:
- you resell the second-hand good as a single taxable item
- you divide the second-hand goods up and sell them separately, provided that:
  - the amount you paid for the second-hand goods was separately itemised, and
  - your division of the goods on resale either corresponds to that itemisation or does not involve further divisions, or
- you purchased the second-hand goods for $300 or less and you divide the goods for resale.

You cannot use the direct approach if:
- the sale of the second-hand goods to you is taxable or GST-free
- you hire the second-hand goods
- you import the goods
- your subsequent sale or exchange of the goods is not taxable
- you use the global accounting method.

Read this in conjunction with Goods and services tax – how to complete your activity statement (NAT 7392).

> These rules do not apply if the seller charges GST for goods you purchase for resale. Use the special rule for this exception (see ‘What is the special rule regarding purchases of certain second-hand goods costing $1,000 or less?’ on page 5).

For more information on:
- the accounts method and calculation worksheet method, refer to Goods and services tax – how to complete your activity statement (NAT 7392)
- cash and non-cash accounting, refer to:
  - Goods and services tax – how to complete your activity statement (NAT 7392)
  - Cash and non-cash accounting (NAT 3136).
Claiming your GST credits

Purchases for $300 or less
If you account on a non-cash basis and you purchase second-hand goods for $300 or less, you can claim the GST credit for the purchase in the reporting period when you first made a payment or received an invoice for the purchase. This does not apply if you choose to claim your credit in the reporting period in which you sell your goods – see ‘Purchases for more than $300’ below.

If you account on a cash basis, you can claim the GST credit in each of the reporting periods you paid for the purchase.

Report the amount of the GST credit at 1B (GST credits) on your activity statement.

Using the same rules, report amounts for purchases at G11 (non-capital purchases) on your activity statement.

Purchases for more than $300
You must wait until you sell the item you have purchased to claim the GST credit if you paid, or are liable to pay, more than $300 for the second-hand item you purchased. You can also choose to wait until you sell the item before claiming your GST credit even if you paid $300 or less for the second-hand item.

If you account on a non-cash (accruals) basis you can claim the GST credit for the second-hand item you purchased in the reporting period you first:
■ receive any part of the payment for the sale of the item, or
■ issue an invoice for the item you sold.

If you account on a cash basis, you can claim the GST credit for the purchase in each reporting period you receive a payment for the sale of the item.

Using the same rules, you report amounts for purchases at G11 (non-capital purchases) on your activity statement.

Report at 1B (GST credits) the lesser of:
■ one-eleventh of the amount you paid or are liable to pay to purchase the goods, or
■ the amount of GST in the price of the item when sold.

Report at G11 (non-capital purchases) on your activity statement the lesser of:
■ the amount you paid, or are liable to pay, to purchase the goods, or
■ the amount you are due to receive when you resell the goods.

If you use the calculation worksheet method do not report any amount at G14 (acquisitions with no GST in the price).

What records do I have to keep?
In order to claim a GST credit, you must have the appropriate documentation. Although a tax invoice is not required, you must keep a record containing:
■ the name and address of the seller of the goods
■ a description of the goods (including their quantity)
■ the date that you purchased the goods
■ the amount you paid for the goods.

WHEN CAN I USE THE GLOBAL ACCOUNTING METHOD?
Generally, you must use the global accounting method to account for purchases of second-hand goods, if:
■ you paid more than $300 for the purchase, and
■ you divide the second-hand purchase into two or more parts before you sell them.

However, you can choose whether or not to use the global accounting method for purchases costing $300 or less.

There is a special rule for certain second-hand goods purchased for $1,000 or less. For more information refer to ‘What is the special rule regarding purchases of certain second-hand goods for $1,000 or less?’ on page 5.

Do not use the global accounting method where:
■ your payment for a batch of second-hand goods is itemised and your division of the goods on resale corresponds to that itemisation
■ the sale of the goods to you is GST-free or taxable
■ you import the goods
■ you hire the goods, or
■ your sale of the goods is not a taxable sale.

How does global accounting work?
When you use the global accounting method, you accumulate GST credits as you purchase eligible items for resale. You cannot claim these GST credits directly at 1B. Instead, use them to cancel out the GST you would otherwise pay to us on the items you sell.

Add your GST credits to any available GST credits that you have carried over from a previous reporting period.

As you subsequently sell the second-hand goods, the amount of your available GST credits is reduced by the GST on the sale, which is 10% of the value of the sale (one-eleventh of the price you charge on the sale). You should only report GST at 1A (GST on sales) on your activity statement when the amount of GST on sales exceeds the amount of available GST credits.
GST AND SECOND-HAND GOODS – COMPLETING YOUR ACTIVITY STATEMENT

Accounts method
If you use the accounts method to complete your activity statement, report sales and purchases of second-hand goods on your activity statement as follows:

**Step 1**
Report the amount of sales at G1 (total sales).

**Step 2**
Report the amount of purchases at G11 (non-capital purchases).

**Step 3**
Report at 1A (GST on sales) the amount of GST payable on sales of second-hand goods. This is the amount by which the GST on sales exceeds the amount of available GST credits on purchases and carried forward from a previous reporting period (if any).

If the amount of GST credits available exceeds the amount of GST on sales for the goods, do not show any amount related to second-hand goods at 1A (GST on sales) or 1B (GST credits) on your activity statement. The excess GST credits are carried forward to the next reporting period.

You may find the following helpful in calculating your GST liability:

(a) Write sales of goods (at G1)
(b) Divide (a) by 11
(c) Write purchases of goods (at G11)
(d) Divide (c) by 11
(e) Write balance of opening credits
(f) Add (d) and (e)
(g) Take (f) from (b)

If (g) is more than zero, (g) is the GST payable (write at 1A).
If (g) is less than zero, (g) is the balance of credits to be carried over to the next tax period.

Calculation worksheet method
If you use the calculation worksheet method, you report sales and purchases of second-hand goods on your activity statement as follows:

**Step 1**
Report the amount of sales of second-hand goods at G1 (total sales).

**Step 2**
Report the amount of purchases of second-hand goods at G11 (non-capital purchases).

**Step 3**
Report at G18 (adjustments on purchases) the amount you reported (if any) at G7 (adjustments on sales) in the previous reporting period.

**Step 4**
Report at G7 the amount for second-hand goods (if any) that G18 plus G11 exceeds G1. However, if the amount of sales of second-hand goods at G1 exceeds the sum of G18 and G11, do not report any amount at G7.

**Step 5**
Do not report the amount you put at G11, at G14 (purchases with no GST in the price).

Report at 1A (GST on sales) the amount of GST on sales that exceeds the available GST credits on purchases calculated using the worksheet.

However, if the amount of GST credits available exceeds the amount of GST on sales, do not enter amounts relevant to second-hand goods at 1A (GST on sales) or 1B (GST credits) on your activity statement. The excess GST credits will be carried forward to the next reporting period as you have shown them at G7 under step 4 above.

**Accounting for GST**
Where there is an amount of GST to be shown at 1A on the activity statement and you account for GST on a non-cash (accruals) basis, you account for any GST payable in the reporting period in which you first:

- receive any part of the payment for the sale, or
- issue an invoice for the sale.

If you account for GST on a cash basis, account for any GST to be shown at 1A in the reporting period in which you receive payment, and to the extent of the payment, for the sale.
Scott is a second-hand goods dealer who purchases second-hand goods that are eligible for GST credits under the global accounting method. Scott accounts for GST on a cash basis. Scott also purchases second-hand goods that he divides before selling. Scott uses the global accounting method so that he doesn’t have to keep records of what goods have been divided before selling. Scott keeps only one set of records to determine the amount of GST payable at the end of each tax period. He also receives full payment at the time of making each sale.

Scott has the following transactions for the first tax period:
- $9,900 at G1 ($900) available as GST credits, and
- $8,800 at G11 (one-eleventh $800) is GST payable on sales.

**Accounts method**
At the end of the tax period, Scott works out any GST liability by offsetting his total available credits of $900 against his total GST payable of $800. Scott doesn't have to pay any GST on sales of second-hand goods as his total credits ($900) are more than his total GST payable ($800). However, Scott is still required to complete and lodge his activity statement showing the purchases and sales for the relevant reporting period.

Scott carries the credit balance of $100 ($900 – $800) over to the next tax period.

Scott would report the following amounts on his activity statement:
- $8,800 at G1, and
- $9,900 at G11.

Since the available credits are more than the GST payable on sales, Scott would not report any amount for the sale of second-hand goods at 1A.

Scott would not report any amount for GST credits at 1B.

**Calculation worksheet method**
Scott reports the following amounts on his calculation worksheet:
- $8,800 at G1
- $9,900 at G11, and
- $1,100 at G7 = G11 ($9,900) + G18 ($0) – G1 ($8,800).

The amount Scott reports at G7 is the amount Scott will need to report at G18 for the next period.

Scott has no GST or GST credits to report at 1A and 1B.

Scott has the following transactions for the next tax period:
- $2,200 at G1 ($200) is added to his available credits, and
- $13,200 at G11 (one-eleventh $1,200) is GST payable.

**Accounts method**
Scott has an opening credit balance of $100, carried over from the last tax period.

At the end of the tax period, Scott works out any GST liability by offsetting his total credits of $300 ($200 + $100) against his total GST payable on sales of $1,200. Scott has to pay $900 GST as his total GST payable on sales ($1,200) is more than his total available credits ($300). Scott is required to complete and lodge his activity statement showing the purchases and sales for the tax period, as well as calculating the amount of GST payable.

Scott would report the following amounts on his activity statement:
- $13,200 at G1, and
- $2,200 at G11.

Since the available credits are less than the GST payable on sales, Scott would report $900 ($1,200 – $300) at 1A.
Scott would not report anything at 1B.

**Calculation worksheet method**
Scott reports the following amounts on his calculation worksheet:
- $13,200 at G1
- $2,200 at G11, and
- $1,100 at G18 (carried forward credit of $100 x 11).

Scott does not have to report an amount at G7 as amounts reported at G11 and G18 do not together exceed the amount reported at G1. Accordingly, Scott will not report an amount at G18 in the next reporting period.

After completing the calculation worksheet, Scott will find that the amount he has to report at 1A is $900. Scott would not report anything at 1B.
WHAT IS THE SPECIAL RULE REGARDING PURCHASES OF CERTAIN SECOND-HAND GOODS COSTING $1,000 OR LESS?
You may choose to use the global accounting method for specified second-hand goods for which you have paid $1,000 or less, even if some or all of the goods were sold to you as a taxable sale or you subsequently sold them as single taxable items.

For a list of relevant second-hand goods and the circumstances that must be satisfied in order to apply this rule, refer to Goods and Services Tax Determination SHG 2000/1 A New Tax System (Goods and Services Tax) Rules for Applying Subdivision 66-B Determination (No. 1) 2000.

The explanatory statement accompanying the determination contains information on how to complete the relevant GST labels on your activity statement where you have chosen to apply the determination.

MORE INFORMATION
For more information about second-hand goods, refer to:
- Goods and Services Tax Ruling GSTR 2000/3 Goods and services tax: arrangements of the kind described in Taxpayer Alert TA 2004/9 – exploitation of the second-hand goods provisions to obtain input tax credits
- Goods and Services Tax Ruling GSTR 2000/8 Goods and services tax: special credit for sales tax paid on stock
- Goods and Services Tax Determination GSTD 2000/2 Goods and services tax: can you claim input tax credits under Subdivision 66-A of the A New Tax System (Goods and Services Tax) Act 1999 for goods that have been incorporated into second-hand goods prior to 1 July 2000?
- Goods and Services Tax Advice GSTA TPP 005 Goods and services tax: How do I calculate the input tax credit for second-hand goods acquired before 1 July 2000?
- Goods and Services Tax Advice GSTA TPP 006 Goods and services tax: How do I calculate the input tax credit for second-hand goods acquired on or after 1 July 2000?
- Goods and Services Tax Advice GSTA TPP 007 Goods and services tax: How do I calculate the input tax credit for second-hand goods not to be divided for re-supply?
- Goods and Services Tax Advice GSTA TPP 008 Goods and services tax: How do I calculate the input tax credit for second-hand goods divided for re-supply?

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This publication was current at July 2010.