

GST - A Guide for Parish Treasurers



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1. Introduction

This manual provides general guidance about the Goods and Services Tax and related issues as they apply to parishes. Parish treasurers will be the chief users of the manual but churchwardens and parish councils should be familiar with its contents. It is issued in the light of knowledge, tax rulings and advice currently available to the Sydney Diocesan Secretariat and is subject to change which may arise by further legislation, ATO rulings and further advice received. It is not possible in this manual to refer to every type of transaction which a particular parish may experience. In the case where you believe that you have an unusual transaction, you should get your own professional advice on the treatment of it.

Questions related to the content of this Manual may be referred to –

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References are made to a number of sources in this manual and in some cases they are abbreviated. These sources are –

- *A New Tax System (Goods and Services) Act 1999* - abbreviated to *GST Act* or a simple reference to a Section or a Division.
- *Charities Consultative Committee Resolved Issues* - abbreviated to *CCC*.
- *Tax basics for non-profit organisations* issued by the ATO - abbreviated to *ATO Tax Basics Booklet*.
- *Private Tax Ruling* (referring to ministry residences).
- *ATO Tax Rulings* - abbreviated to *TR 2000/X* (Year/Number in Year).

Common abbreviations used throughout this document are –

ABN	Australian Business Number
ATO	Australian Taxation Office
BAS	Business Activity Statement
CCC	Charities Consultative Committee
CPT	Anglican Church Property Trust Diocese of Sydney
GST	Goods and Services Tax
ITEC	Income Tax Exempt Charity

2. General Principles of GST

Generally speaking, GST is a tax payable on taxable supplies (*GST Act section 7-1*). Supplies made for consideration (usually money) in the course of an enterprise (which includes parishes) are taxable supplies except to the extent that the supply is GST-free or input taxed (*GST Act section 9-5*). Only registered enterprises (refer to section 4 of this manual) make taxable supplies (*GST Act section 9-5*).

An enterprise must pay to the ATO the GST on any taxable supply it makes at the rate of 10% of the “value” of the taxable supply or 1/11th of the price received for the supply (*GST Act sections 9-40, 9-70, 9-75*). Generally, a registered enterprise that purchases a taxable supply is entitled to claim an input tax credit of 1/11th of the consideration paid if it holds a tax invoice for the supply or the price paid is less than \$55 (*GST Act Division 11, section 29-10*). The taxable supply purchased by the enterprise is known as a “creditable acquisition” because the enterprise can claim input tax credits in respect of the expense.

If a supply made by an enterprise (eg. parish) is GST-free then the enterprise does not pay GST to the ATO in respect of the supply. However, the supplies purchased by the enterprise which are used to make the GST-free supplies are creditable acquisitions where the price paid for the supplies includes GST. This means that the enterprise can claim input tax credits for GST included in the price paid for things acquired to make the supply (*GST Act section 11-15*).

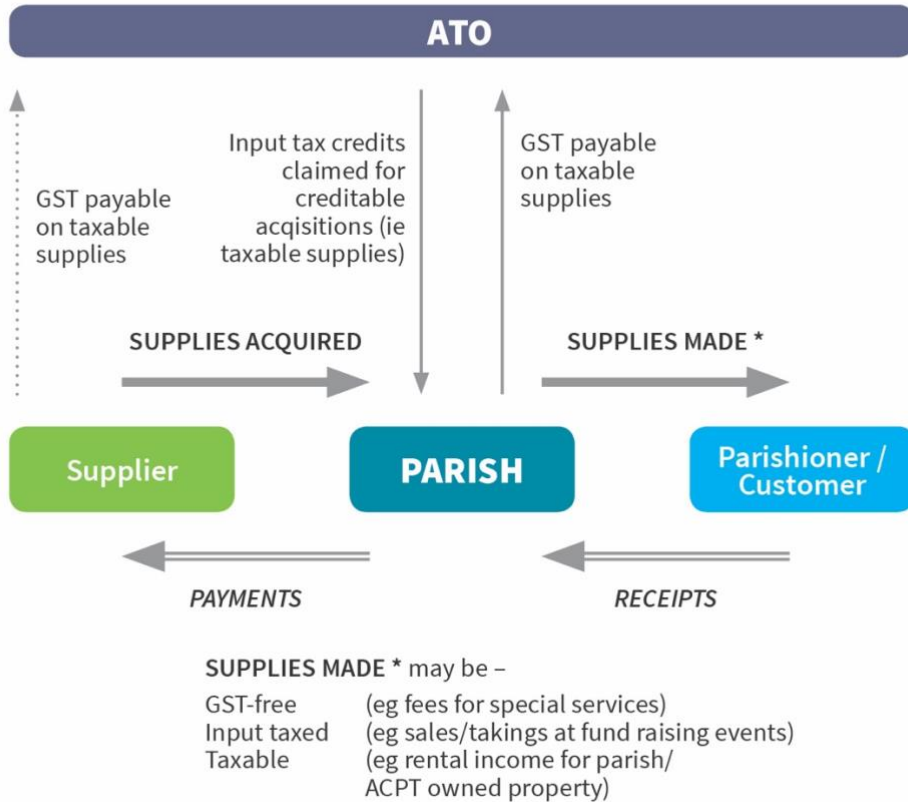
If a supply made by an enterprise (eg. parish) is input taxed then the enterprise does not pay GST to the ATO. However, supplies purchased to make input taxed supplies are not creditable acquisitions. This means the enterprise is not entitled to claim input tax credits for anything acquired to make the input taxed supply (*GST Act section 11-15*).

Supplies between members of the same Religious Group are treated as “out of scope” supplies and GST does not apply (see section 5 of this Manual “the Anglican GST Religious Group”). Members of the Religious Group cannot claim input tax credits in respect of supplies acquired from other members of the Group as they are not creditable acquisitions.

Where a supply is made by an unregistered enterprise or if no consideration is received then the requirements for a taxable supply mentioned above are not met. These are also known as “out of scope” supplies and GST does not apply.

The above is a brief description of GST (which is covered by over 500 pages of legislation) and is not to be read as a full description or relied upon in determining policies and procedures of the parish in this matter. The remainder of this manual gives more specific guidance on subjects of relevance to all parishes.

The general situation of a parish in relation to GST can be depicted in the following diagram



3. Parishes are Treated Differently for GST

The application of GST and other tax reform measures to Anglican churches and parishes is different to other enterprises in a number of significant ways. These differences include

- the consequences of the endorsement and registration of the church and parishes for ABN, GST and ITEC; and
- the tax implications of being a member of the Anglican GST Religious Group.

These are discussed in more detail below.

4. ABN, GST and ITEC

The registration of parishes for the ABN and GST and the endorsement of parishes as Income Tax Exempt Charities (ITEC) have a number of important tax implications –

- if parishes quote their ABN in relation to supplies made, commercial customers do not need to withhold tax from any payments made to the parish under the “No ABN” withholding requirements;
- parishes will need to pay GST on their taxable supplies and be able to claim input tax credits for their creditable acquisitions; and
- as ITECs, parishes will be exempt from income tax and will be able to treat certain supplies that would normally be taxable as GST-free supplies under rules applicable to the non-commercial “nominal consideration” activities of charities.

The principal requirement for being entitled to an ABN is to be carrying on an enterprise in Australia. Parishes fulfil this requirement. The government uses the ABN as the single identifier of an organisation (replacing the group employer number).

Registration for GST is optional for a non-profit body such as a parish if the turnover is below \$100,000. The turnover for a parish can be equated to its total receipts excluding offertories and donations and income from input taxed transactions (eg rental income). If turnover is \$100,000 or above, GST registration is compulsory. The recommendation is that all parishes register. If a parish does not register for GST it will not be entitled to claim input tax credits for the GST charged on any goods and services (supplies) which it purchases.

In addition to registration for GST it is recommended that all parishes also seek endorsement for the charity tax concessions applicable to ITEC, GST and FBT. The details of the endorsement process are explained in the *Parish Accounting and Financial Administration Guide*.

Endorsement for income tax exemption means a parish –

- (a) is exempt from paying income tax,
- (b) is not required to lodge income tax returns,
- (c) is able to claim refunds of excess imputation credits if it holds investments from which these may be derived, and
- (d) is entitled to join the Anglican GST Religious Group (see heading below in this section of the Manual).

Endorsement for the GST concessions entitles a parish to –

- (a) choose cash accounting,
- (b) treat supplies made on a non-commercial basis as GST-free, and
- (c) declare some fundraising events input taxed.

Endorsement for the FBT concessions entitles a parish to a rebate of 48% of the gross FBT payable, subject to a capping threshold of \$30,000 per employee. (*Note: benefits provided to a religious practitioner are exempt, however this rebate would apply to benefits provided to any other parish employee.*)

Parishes wishing to be eligible for GST charity tax concessions must be endorsed by the Australian Taxation Office.

5. The Anglican GST Religious Group

Division 49 of the GST Act makes provision for the approval and establishment of GST Religious Groups. The Tax Commissioner has approved an Anglican GST Religious Group. An Anglican parish is entitled to be a member of this Group if –

- (a) it is registered for GST;
- (b) it is endorsed as an exempt from income tax charity (ITEC); and
- (c) it is not a member of any other GST Religious Group.

All Anglican parishes in the Diocese of Sydney and most other Anglican parishes and organisations throughout Australia have become members of the Anglican GST Religious Group. Any newly created or restructured parishes should ensure that they obtain an ABN, register for GST and obtain ITEC, GST and FBT endorsement. Whenever there is any change to these details (such as would occur when new parishes are formed or existing parishes are renamed or amalgamated) the Diocesan Secretary should be advised in writing so that the membership of the Anglican GST Religious Group can be updated.

The consequence of being a member of the Anglican GST Religious Group is that supplies of goods and services between members of the same GST Religious Group, which would normally have GST implications, are treated as if they are not taxable supplies. In effect, transactions between members of a GST Religious Group are regarded as being internal transactions within the one entity and so do not have GST implications and are not recorded on the BAS.

Examples of the saving in administration and costs that occurs through membership of the Anglican GST Religious Group are -

- The parish cost recoveries charge will not include GST. (A parish that is not a member of the Anglican GST Religious Group should seek tax advice as to whether input tax credits can be claimed in respect of the GST charged on parish cost recoveries which are an amalgamation of insurance, superannuation and other administrative charges.)
- Food and accommodation charges for Anglican Youthworks camps will not include GST.
- Educational and scripture materials bought from Anglican Youthworks and other members of the Anglican GST Religious Group will not include any GST.

6. Non-commercial Activities - “Nominal Consideration” Rule

The GST law provides that where charities (such as ITEC endorsed parishes) make a non-commercial supply these supplies will be GST-free if the price charged for the supply by the charity is for “nominal consideration” (*GST Act section 38-250*).

Under this rule, a supply made by a charity is GST-free if the price charged and received is -

- less than 50% (75% if the supply is of accommodation) of the market value of the supply made; or
- less than 75% of the cost of making the supply.

It is important that, if a parish intends to rely on this provision so that supplies it makes that would otherwise be taxable are treated as GST-free, the parish must undertake a proper analysis of appropriate market values and/or its costs to support the GST-free treatment. Any analysis of this nature should also be fully documented so that the GST-free treatment can be sustained in the event of ATO inquiry or audit.

The “nominal consideration” rule may be relevant to a number of different types of supplies made by parishes; for example, ministry activities (section 8), lease or hire of parish hall (section 9), seminars & houseparties (section 14), houses provided to ministry staff (section 15) and sale of a motor vehicle (section 17).

7. Fundraising Activities

Subdivision 40-F of the GST Act makes special provision for the conduct of fundraising events by charitable institutions including parishes.

A fundraising event is an event conducted for the purpose of fundraising and which does not form any part of a series or regular run of like or similar events. The GST Act gives several examples of fundraising events - fetes, balls, gala shows, dinners, performances. An event comprising sale of goods, provided each sale is for a consideration that does not exceed \$20 and selling such goods is not a normal part of the supplier's business, also falls within the definition. The sale of alcoholic beverages or tobacco products is not allowed to be classified as a fundraising event. The Tax Commissioner has indicated that up to fifteen of each particular type of fund raising events (ie 15 fetes, 15 dinners, etc) may be held in any financial year without forming part of a series or regular run of like or similar events for the purposes of *subsection 40-165(4) of the GST Act*. If you plan to hold a fundraising event which does not fit any of the above categories you may apply to the Tax Commissioner to have it declared as a fundraising event.

If an event is for fundraising then your parish can elect to treat the supplies your parish makes to parishioners or the general public as input taxed. This means that your parish does not have to incorporate the GST into the charges you make to the public for your tickets, sales or any other supplies and there is no amount to be paid to the ATO as GST. Supplies that the parish has to buy to conduct its fundraising event may include GST depending on the nature of the supply and who supplied it. However, input tax credits cannot be claimed for the GST included in the price of these expenses as they relate to the input taxed supplies

made as part of the fundraising event. Therefore the GST paid for these expenses will be a cost to the parish.

Generally it will be beneficial to the parish to declare a fundraising event to be input taxed. In normal circumstances the amount of sales will be significantly higher than the cost of supplies needed to make those sales possible so that if the event were not input taxed then a substantial amount of GST on the sales would have to be remitted to the ATO. There is also a substantial saving in work through not having to issue tax invoices and not having to calculate GST on each sale. The total amount of the sales and the supplies required to enable the sales have to be reported on your BAS in the lines referring to input taxed items.

Subdivision 40-F of the GST Act requires that the parish that conducts a fundraising event must record in its minutes a description of the event and a resolution that it is to be treated as input taxed. It is recommended that a separate account be maintained in the books of the parish to demonstrate that not only the sales but also the costs of supplies received to enable the event to proceed have been treated as input taxed.

8. Ministry Activities

Some ministry activities (such as a children's holiday club, or the supply of recordings of the church service on CD) may be designed to provide a service to members or the wider community at substantially less than the market value or cost to the parish. Where this is the case the supply may be GST-free if the parish can demonstrate that the price it receives is either –

- less than 50% of the market value, or
- less than 75% of the cost to the parish.

Where the parish is satisfied that the particular supply it is making satisfies the 'noncommercial' test described in section 6 above, no GST will be payable on that supply.

9. Weddings, Funerals and Other Occasional Services

Subdivision 38-F provides that supplies of religious services are GST-free if supplied by a religious institution (parish) and the service is integral to the practice of that religion. The ATO has advised the CCC that supplies such as the minister's services, organist's services, choir services, candles, communion supplies and service sheets provided for a wedding, funeral or other occasional services are considered to be integral to the practice of the Anglican religion and so are GST-free.

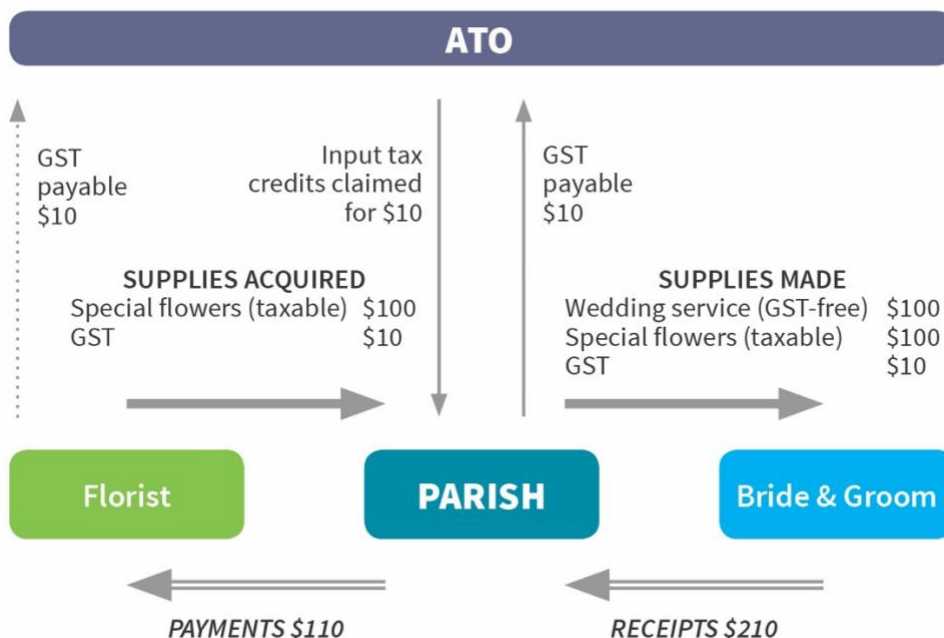
Other additional services that may be charged for by the parish and provided specifically for weddings or other special events for consideration such as vergers' services, special flowers, decorations to the church or hall, vehicle hire, any charge made for cleaning or maintenance of the property, sale of columbarium niches or secretarial charges are taxable supplies. The parish may need to issue a tax invoice for these additional services and include GST in the price of these services. The parish will need to pay GST to the ATO in

respect of these supplies in the next BAS and should consider increasing the price of these services to recover the GST liability.

GST included in the price of purchases of flowers and decorations by the church and hall, maintenance of the cemetery or columbarium, etc can be claimed as input tax credits on the BAS.

Any unsolicited donation received by the parish or the minister for an occasional service will not be subject to GST.

The following diagram illustrates the effect of a parish acquiring special flowers for \$100 as part of providing a wedding service for which it passes on the cost of the flowers and also charges \$100 for the service itself.



10. Lease or hire of Parish Halls

Generally speaking, the lease, licence or hire of a parish hall for consideration to persons external to the parish is a taxable supply. This means that the parish is obliged to pay GST to the ATO in respect of the supply, report the GST on the next BAS and comply with the other GST Act requirements such as issuing tax invoices for the supply. Parishes should also consider increasing the cost of the hire to recover the cost of the GST liability on the supply.

The parish is entitled to claim input tax credits for any expenses which relate to the lease, licence or hire of the hall. Such expenses may commonly include repairs, cleaning, electricity, construction of an extension, conversion or other substantial building work required to make the hall suitable for the purposes for which it is going to be hired.

There are 2 scenarios where the lease, licence or hire of the parish hall will not be subject to the GST –

- (a) where the hall is made available to another member of the Anglican GST Religious Group (for example Anglicare) then this becomes an internal transaction within the Group and GST is not applicable, and
- (b) where the parish council resolves to provide the hall for “nominal consideration”. Nominal consideration is either –
 - (i) less than 50% of the market value of the supply (less than 75% if the hall is used for accommodation) ; or
 - (ii) less than 75% of the cost of making the supply.

Note: It is likely that the market value will be the figure that will be easiest to ascertain. The ATO requires that any analysis of this nature must be properly documented. Therefore, the parish council should make sure to minute any resolution on this matter and be able to produce that minute and substantiate the market value in case of ATO audit. If the nominal consideration test can be met then the supply is GST-free as provided by *subsections 38-250(1)(b)(ii), 38-250(2)(b)(ii) of the GST Act.* (Refer section 6. above).

Parishes should note that licenses (which grant limited times and conditions of use) may be granted by churchwardens. In some cases, these will be supplied at a nominal value, and may be GST-free, if the above criteria are met.

However, leases must be signed and approved by the CPT and should comply with the policies of the CPT, one of which is that the lease must be supplied on a commercial basis at a market rent. Accordingly, where a lease has been supplied at a market value, it will not be GST-free. The supply will be a taxable supply and the nominal consideration provisions will not be applicable. In limited circumstances where leases are granted for less than market value the nominal consideration test may be applicable.

11. Cemeteries and Columbaria

Supplies of a burial ground or columbarium for a fee would generally be subject to GST as these supplies are not regarded as “services integral to the practice of religion” (see section 9 “Weddings, funerals and other occasional services”). GST is payable by the parish to the ATO in respect of the supply of a columbarium niche for a fee and should be reported in the parish BAS. Parishes should consider increasing charges to recover the cost of this GST liability.

The parish may also be required to issue tax invoices for the taxable supplies made.

However, as noted above, all worship services associated with the cemetery or columbarium are GST-free (refer to section 9 of this Manual).

Input tax credits will be available to the parish in respect of all GST-inclusive expenses incurred in operating the cemetery or columbarium.

12. Grants from Non-Anglican Bodies

Payments made by way of grants can be regarded as consideration for a taxable supply. Therefore, where a parish receives a grant payment to provide goods or services to the community it is seen to be providing supplies to the entity providing the grant payment for GST purposes. The parish will therefore be obliged to pay GST in respect of the grant payment.

The *ATO Charities booklet* provides examples of grants that will be subject to GST, including –

- (a) a parish may receive a grant from the local council to provide community services; or
- (b) the National Trust may make a grant to a parish with historic buildings for the purpose of restoring those buildings.

In these examples, the entity which is receiving the grant (the parish) is obliged to pay 1/11th of the amount of the grant to the ATO as the GST and may be required to issue a tax invoice to the granting entity in respect of the supplies made for the grant payment.

The entity which has made the grant to the parish is entitled to an input tax credit equal to 1/11th of the grant amount. This means that if the granting body wishes to make a payment of \$10,000 to a parish then it should pay \$11,000 and collect an input tax credit of \$1,000 so the net cost to the granting body will be \$10,000. The parish receiving the \$11,000 grant will have to pay \$1,000 to the ATO as GST and therefore will receive a net grant of \$10,000.

State and Federal Government authorities have generally decided to gross up their grants by 10% in the manner described above so that there would be no net reduction in grants made to grant recipients.

While the parish should in most cases receive the same net amount of grant that it would have received prior to the implementation of GST, it is important to correctly account for the GST. In no circumstances should the parish neglect to pay 1/11th of the grant received. Upon discovery by ATO audit, then not only will the amount not paid be charged to the parish but also a penalty of up to 200% of the unpaid amount plus interest from the date of the failure to pay until the amount is paid. *ATO ruling TR 2000/11* deals with this subject.

In accordance with the principles explained in section 3 of this Manual, any grant received from a body which is a member of the Anglican GST Religious Group is classified as an internal transaction by *Division 49 of the GST Act* and is excluded from the GST.

13. Gifts, Donations, Bequests and Legacies

True and unconditional gifts, donations, bequests and legacies are not subject to GST because they are a supply of money for no benefit (ie. consideration) in return. However, where a donor requires or expects to receive a benefit for the payment, there will often be GST implications.

As an example, requiring one's name to be recorded as a donor would not give rise to a GST liability because there has been no material benefit flowing to the donor for the fulfilment of this condition. Gifts made for specific purposes such as for a Sunday School or a building fund will not be subject to GST. If the parish or other recipient were to give naming rights to the donor in ordinary circumstances that should not affect the nature of the payment being a gift.

However, where a donor is expecting certain rights, such as access to a hall or other building, the payment would tend to have the character of rent. Likewise, where a business donates money and expects publicity for that donation that could have the character of advertising and therefore have GST implications.

14. Seminars, Houseparties and Spiritual Retreats

The supply of a seminar, houseparty or spiritual retreat by a parish may be covered by *Sub-division 38-F of the GST Act* (religious services – see section 9 of this Manual) which provides that a supply is GST free if it is a supply of service that –

- (a) is supplied by a religious institution; and
- (b) is integral to the practice of that religion.

Part 12 of the CCC Resolved Issues gives answers to specific questions which clarify the application of this principle. The key consideration must be that the **major** purpose of a seminar, retreat, houseparty, etc. must be spiritual and for the purposes of religious devotion and instruction so that a claim that the activity is integral to the practice of the Anglican religion can be maintained to support GST-free treatment.

Support for the GST-free treatment of the supply of the seminar, houseparty or retreat as a supply of religious services should be documented in parish council minutes.

However, *CCC Resolved Issues* states that accommodation and food (being examples of components that have a commercial equivalent) provided at a religious retreat, seminar or house party and charged to the individual attendees by the parish will not be GST-free. Parishes should be careful to distinguish the charges made for food and accommodation so that the appropriate GST can be identified and paid to the ATO in respect of these supplies. Parishes should also consider increasing the cost of the food and accommodation at retreats to recover the cost of the GST liability.

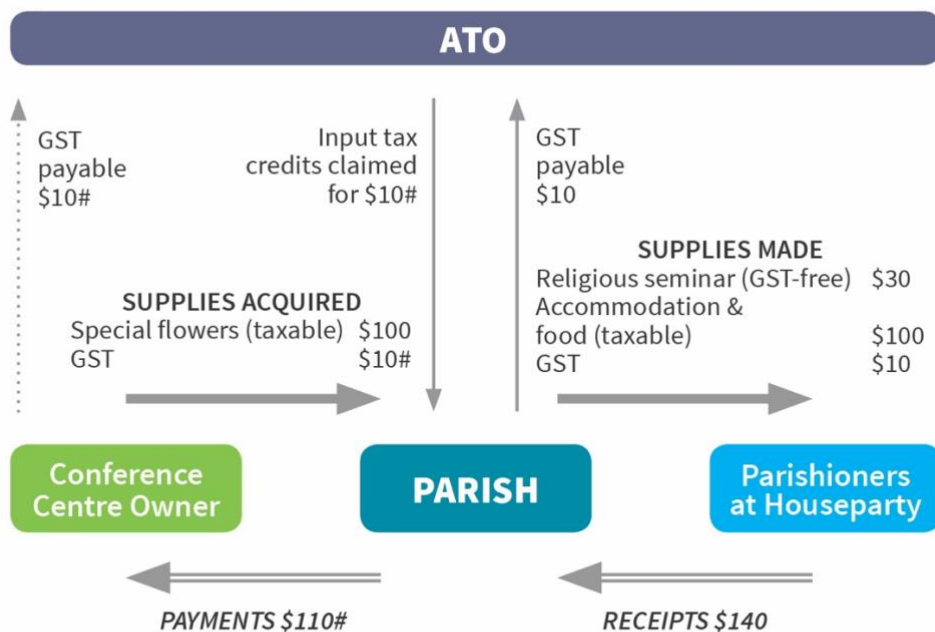
Spiritual retreats that take place at properties owned and operated by Anglican bodies such as Anglican Youthworks and charged to parishes will not be subject to GST. As parishes and Anglican Youthworks are members of the Anglican GST Religious Group, supplies of spiritual retreats from one member to another are regarded as internal transactions and will therefore be outside the scope of the GST. This exemption applies also to camps or houseparties which cannot be classified as spiritual retreats where the retreats are supplied from one member of the Anglican GST Religious Group to another.

However, even if the spiritual retreat takes place at a property owned and operated by an Anglican bodies such as Anglican Youthworks, if the parish then charges the individual attendees for the seminar, food and accommodation, the parish will need to consider

whether it may need to pay GST in respect of the food and accommodation, as discussed above. The practice of Anglican Youthworks is to include a note on their invoices to explain that where no GST has been charged it is because Youthworks has determined that the supply is GST-free under section 38-250 of the GST Act because they are making the supply at less than 50% (less than 75% in the case of accommodation) of its market value. In addition, Youthworks and the parish are part of the same GST religious group.

If the parish is satisfied that its supply is GST-free under section 38-250 of the GST Act because it is making the supply of food and accommodation at less than 50% (less than 75% in the case of accommodation) of its market value, the parish will not need to pay GST on the amount it charges to individual attendees.

The following diagram illustrates the effect of a parish acquiring accommodation and food at a market value of, say, \$100 per head as part of providing a parish houseparty for which it passes on the cost of the accommodation and food and also charges \$30 to cover the cost of the speaker and the study notes, etc.



If the Conference Centre Owner is a member of the Anglican GST Religious Group the supply acquired by the parish would not be subject to GST.

The situation would be different however if the parish acquires and supplies the accommodation and food for significantly less than its market value. For example, if the same accommodation and food as in the above example (with a market value of \$100) is acquired for, say, \$40 per head, and the parish passes on this cost and charges \$30 to cover the cost of the speaker and the study notes, etc. there would be no GST payable and no

input tax credits to be claimed. The parish would simply pay the conference centre owner \$40 and receive \$70 from its parishioners.

15. Houses Provided to Ministry Staff

The supply of residential housing is generally input taxed. This means that no GST is payable on the supply of housing but no input tax credits can be claimed in respect of the expenses incurred to provide that supply.

However, the Diocese of Sydney has received a *private tax ruling* from the ATO confirming that in most cases the supply of accommodation to ministers, which includes both ordained and lay persons, is GST-free.

Parishes are entitled to claim back the GST paid by the parish in connection with the supply of “property management services” to the Property Trust, because the parish and the Property Trust are members of the same GST group. In practice this will entitle the parish to claim back all GST on items such as utilities (electricity, gas, water), minor repairs and maintenance, and small improvements and renovations undertaken by the parish (ie on contracts signed by the churchwardens) in relation to a property (which is owned by the Property Trust and held in trust for the parish) used to house parish ministry staff.

Generally the actual supply of accommodation by the Property Trust to parish ministry staff will be GST-free on the basis of it being a non-commercial supply made by a charity (the parish). The test for a non-commercial supply is whether the consideration (the value of the services provided by the member of parish ministry staff) is less than 75% of the GST inclusive market value of the actual accommodation provided (*Section 38250(1)(b)(i) of the GST Act*). Where the supply is GST-free the Property Trust will be entitled to claim back any GST it paid in order to make that supply. Typically the Property Trust will pay GST in relation to contracts it signs for the repair, renovation, improvement or construction of rectories and other parish ministry residences.

The ATO’s new private ruling has endorsed a particular methodology by which the Property Trust can determine the value of the services provided by a member of the parish ministry staff. Essentially this value will be derived from a benchmark comparison between the minimum stipends paid to parish ministry staff in the Diocese and the salary paid to the appropriate level of Australian Defence Force (ADF) Chaplains. The Property Trust will need to periodically review the validity of the particular benchmark comparison chosen, and update the calculation to reflect the current stipends and salaries.

Residences provided for non-ministry staff may not fall within the scope of the private tax ruling and the GST implications of the provision of this supply would need to be considered on a case-by-case basis, although the non-commercial “nominal consideration” rule may still be applicable.

Other equipment

Telephones and other equipment that may be owned by the parish but placed in a minister’s residence such as photocopier, computer and printer are not a part of the residence and may be used for both private and parish business. Input tax credits can be claimed for the

proportion of the expense relating to parish business but cannot be claimed in respect of the proportion of private usage, unless the private portion is paid from a Minister's Discretionary Benefit Accounts (MDBA) as part of a benefit provided to the minister (refer section 18 of this Manual) and the payment meets the requirements of the *GST Act*.

A minuted parish resolution on what portion of each of the items of equipment in the minister's residence is agreed to be for parish business will provide sufficient evidence of the appropriate apportionment between parish and private usage, provided any such apportionment is determined on a reasonable basis.

16. Sale or Purchase of Property (Land)

This section deals only with the effects of the GST legislation on property sales and purchases. For a full explanation of how specific transactions are administered by the CPT, reference should be made to the Diocesan website.

Sales and purchases of residential property and of commercial property are treated differently by the *GST Act*. Sales of residential property will generally be input taxed where the sale of commercial property or vacant land will be taxable.

Commercial Property

The sale of commercial property and vacant land will generally be a taxable supply and when selling, the CPT (as the legal owner of virtually all real property used by parishes), will be obliged to pay GST to the ATO in respect of the sale of the property.

However, another option for the sale of taxable commercial property is the application of the margin scheme. *Division 75 of the GST Act* deals with the sale of freehold interests and explains the margin scheme which can be used when making a taxable supply of real property by -

- (a) selling a freehold interest in land; or
- (b) selling a stratum unit; or
- (c) granting or selling a long-term lease.

The margin scheme cannot be applied if the seller acquired the freehold interest etc through a taxable supply on which the GST had been worked out without applying the margin scheme.

The choice is given to the seller to apply the margin scheme, however it will be a matter of negotiation with prospective buyers to produce the most favourable outcome for both parties.

The margin scheme can be beneficial from a seller's perspective as the GST payable may be less than if the margin scheme did not apply. The GST liability for a margin scheme property sale will be 1/11th of the difference between the sale price paid and the valuation of the property as at the valuation date set in the *GST Act* (generally, 1 July 2000). From a buyer's perspective, the acquisition of a property under the margin scheme is not a creditable acquisition.

Professional taxation advice should be sought if a parish is contemplating either selling or purchasing a property using the margin scheme.

Residential Premises

Sections 40-65 and 40-70 of the GST Act provide that sales (or the long term lease, ie over 50 years) of residential premises used predominantly for residential accommodation are input taxed.

This means that no GST is payable in respect of the sale of residential property. As an input taxed supply, there is no entitlement to input tax credits in relation to the expenses incurred readying the property for sale (e.g. legal fees, auctioneer's commission).

However, the same sections mentioned above also provide an exception to the sale or supply of residential premises being input taxed in the case of new residential premises other than those used for residential accommodation before 2 December 1998. An example of new residential premises that may affect a parish would be any residential premise that has not been previously sold as residential premises and includes buildings that have been created through substantial renovations or have been built as a replacement for demolished premises on the same land. This means that if a parish has constructed a residence on its own land or subdivides an existing residence after 2 December 1998 and subsequently sells the property to be used as a residence then that transaction is taxable supply and not input taxed. The margin scheme described in *Division 75* can be applied to such a sale. The ATO provides examples of the taxability of properties quoted in *CCC (Part 10)* referring to sale of a parish hall and a church converted to a residence.

It is recommended that in any case where a parish contemplates an unusual property sale of the nature described above then professional tax advice should be obtained.

17. Sale or trade-in of a motor vehicle

Although the sale of a motor vehicle would normally be subject to GST, the 'noncommercial' rules that apply to a parish may mean that the sale or trade-in is GST-free.

A trade-in is to be treated as two transactions – purchasing one vehicle, and selling a second vehicle by way of trade-in.

If a parish decides to trade-in a vehicle the trade-in will be GST-free if the payment the parish receives is –

- (a) less than 50% of the market value of the vehicle, or
- (b) less than 75% of the purchase price of that vehicle.

Generally the trade-in price the parish receives will be the full market value of the motor vehicle, therefore the trade-in will not be GST-free under the first of the non-commercial rules above. However, if the trade-in price is less than 75% of the amount the parish paid to purchase the vehicle, the trade-in will be GST-free under the second of the noncommercial rules.

For GST purposes, the purchase price of a motor vehicle includes –

- the original cost of the vehicle (including GST),
- the cost of any optional extras,
- the cost of any modifications, and
- the cost of delivery, but does not include –
- stamp duty,
- motor vehicle registration fees, and
- compulsory third part insurance.

18. Input Tax Credits for Payments from Minister's Discretionary Benefit Accounts

A parish is entitled to claim input tax credits in respect of payments made from Minister's Discretionary Benefit Accounts (MDBA) operated for the benefit of ministers and assistant ministers. It doesn't matter whether the payments are for 'ministry related' expenses as explained in section 10 of the annual Guidelines for the Remuneration of Parish Ministry Staff, or for benefits of a 'private' nature. (In this section the terms minister, assistant minister and lay minister rely on the definitions contained in that document, and it is assumed that the MDBA is operated in accordance with the recommendations in those Guidelines.)

For the purposes of the *GST Act* an activity of a religious practitioner done in the pursuit of his or her vocation as a member of a religious institution will be treated as though it were an activity of the religious institution (*section 50-5*). Furthermore, since providing an agreed level of benefits to the minister is part of the 'enterprise' of the parish, it follows that, where a payment from a MDBA (either re-imbursing a minister or assistant minister, or paying a third party direct) is supported by a tax invoice or is for a price less than \$82.50, the parish is entitled to an input tax credit in respect of that payment, subject to the payment meeting the requirements of the *GST Act*.

Input tax credits relating to payments from a MDBA operated for the benefit of a lay minister can be claimed under *Division 111 of the GST Act*, where a parish holds a valid tax invoice. (See Appendix 2 for Tax Invoice checklist).

19. Tax invoices

The information required for a valid tax invoice is set out in Appendix 2.

One of the requirements of a valid tax invoice where the amount is over \$1,000 is that the recipient's name is to be stated on the tax invoice. As a parish may trade under various names, the list of trading names need to be updated regularly with the ATO to avoid denial of input tax credits.

Also, suppliers need to state their ABN when they issue a tax invoice, therefore in cases where the supplier has issued a tax invoice without stating its ABN, parishes will not be entitled to input tax credits on the tax invoice. Further, if the invoice was for an amount exceeding \$50, parishes are required to retain 46.5% of the amount stated on the invoice

for the purposes of ABN withholding. The 46.5% will be required to be reported under the PAYG section at W4 and the amount remitted to the ATO in the month of reporting.

20. Completion of the BAS

It is recommended that parishes continue to prepare the BAS statement on a quarterly basis (or a monthly basis if the expected refunds are substantial) rather than on an annual basis now offered as an option to some enterprises by the ATO. The administrative burden will be easier for parish treasurers to cope with on a quarterly rather than an annual basis. The CPT submits its BAS monthly when it accounts for real property transactions on behalf of parishes.

It is important to remember that the GST is levied on a self assessment basis and tax audits may be conducted by the ATO. If subject to an audit, parishes may need to substantiate every entry on each BAS. The ATO can review transactions over a 5 year period. The safest way for parishes to ensure they can substantiate their BAS is to retain a file containing copies of all tax invoices which the parish has issued or paid for the period covered by and reported on each BAS. Churchwardens are asked to advise the Diocesan Secretary on each occasion that they are notified that the ATO are to conduct a tax audit of their parish.

Completion of the BAS starts with nominating Option 1 (Calculating GST and report quarterly).

Entries may be required in any or all of G1 (Total sales), G3 (other GST-free sales), G10 (Capital purchases) or G11(non-capital purchases) but few parishes will have an entry in G2 (Exports).

Parishes should follow ATO Guidelines regarding BAS preparation using the information relating to the appropriate tax treatment of transactions contained in this Manual.

PAYG withholding tax details are also required quarterly regardless of how frequent you choose to lodge your BAS. Entries may be required at W1, W2, W4, and W5 (note that it is very unlikely that parishes will need to complete W3 which relates to withholding from investment distributions). Totals at G9, G20 and W5 are transferred to the front of the form.

The BAS contains a "summary" section in which you record amounts the parish owes to the ATO and amounts the ATO owes to the parish.

Entries may be required at 1A (GST on sales), 1B (GST on purchases) and 4 (PAYG tax withheld).

The figure recorded at Box 1A in the summary section is the total amount of GST payable by you to the ATO on taxable supplies made by you during the period. G1 should be a summary of total sales made during the period, including taxable, GST-free and input taxed supplies. (The figure may be GST inclusive or GST exclusive).

The figure recorded at 1B (GST on purchases) should be the total of GST paid and fully claimable by you during the period. The amount recorded at G10 is specifically for capital

purchases while G11 is the total of non-capital purchases made during the period. Amounts reported at G10 and G11 should be GST inclusive.

The total recorded at W1 (Total amounts withheld) should be the same as that recorded at 4 (PAYG tax withheld) in the "summary" section.

The ATO has produced a guide *Correcting GST Mistakes* which outlines when mistakes made on a BAS can be corrected on the next BAS, rather than by contacting the ATO to revise the BAS.

21. Documenting Transactions

The ATO may conduct audits of parish accounting records within a 5 year period to ensure that GST has been correctly calculated and paid. Interest will be charged on GST not paid and penalties may also be charged. It is vital to have accounting records whether manual or computerised that are adequate to demonstrate the GST has been properly accounted for. It is recommended that accounting transactions should be crossreferenced and reconciled to the BAS and the documents filed so that all documents required to substantiate the entries on a specific BAS are filed with that BAS.

Reference is made throughout this Manual to the need to have parish council minutes to record the authority and reason for some transactions or policies. It is essential that these minutes be readily cross-referenced and accessible to demonstrate to the ATO auditor that transactions were properly dealt with according to the GST legislation.

Appendix 1

Common financial transactions reported in Prescribed Financial Statements

The following table indicates the normal GST status of common items appearing in the Prescribed Financial Statements.

The sections headed "Other Receipts" and "Other Payments" refer to receipts and payments reported in the Prescribed Financial Statements as Trading Activities or Other Funds.

Receipts

Receipt Item	GST Status	GST payable to ATO	Comments
Offertories	Not applicable	No	
Donations for unspecified parish purposes	Not applicable	No	
Donations for a specific parish purpose	Not applicable	No	It is recommended that if a donation is received which has a condition applied to it which defines certain rights (eg. access to a hall or publicity) then advice should be sought on the GST status. See section 13 "Gifts, donations, bequests and legacies".
Donations for Missions	Not applicable	No	
Donation for visiting speakers	Not applicable	No	
Testimonials and Gifts	Not applicable	No	
Surplice fees	GST-Free	No	
Fee for use of church	GST-Free	No	See section 9 "Weddings, funerals and other occasional services".
Grants from HMS, Regional Councils and other members of the Anglican GST Religious Group	Not applicable	No	See section 5 "Anglican GST Religious Group".
Grants from non-Anglican sources	Taxable	Yes	See section 12 "Grants from Non-Anglican bodies".
Bank Interest received	Input taxed	No	
Investment interest received	Input taxed	No	
Sale of residential property	Input taxed	No	See section 16 "Sale and purchase of property (Land)".

Sale of commercial property	Taxable GST Asset sale	Yes	See section 16 "Sale and purchase of property (Land)". Note - Division 75 of the <i>GST Act</i> makes provision for the application of a margin scheme.
Sale of assets	Taxable - GST Asset sale	Yes	
Redemption of investment	Not applicable	No	
Legacies	Not applicable	No	See section 13 "Gifts, donations, bequests and legacies".
Borrowings	Not applicable	No	
Receipts within the parish	Not applicable	No	
Trading activity surplus #	Not applicable	No	The individual items of receipt and payments which went to make up the trading activity surplus will each have been allocated a GST status, the figure in this account is the net of these transactions.

This is not a posting account, it is the balance of several transactions in "Other Receipts" and "Other Payments".

Payments

<i>Payment Item</i>	<i>GST Status</i>	<i>Input Tax credit available</i>	<i>Comments</i>
Stipends and salaries	Not applicable	No	although refer section 18 "Input tax credits for payments from Minister's Discretionary Benefit Accounts".
Superannuation	Not applicable	No	
Parish cost recoveries	Not applicable	No	If paid by a member of the Anglican GST Religious Group
Resource materials other than for worship	Taxable	Yes	
Resource materials used for worship including sanctuary materials, communion supplies, flowers, worship books, music, slides, etc.	Taxable	Yes	
Donations made to missions	Not applicable	No	

Seminars and conferences (with the major purpose being for spiritual, religious devotion and instruction purposes)	GST-Free	No	Note: food and accommodation provided at seminars will not necessarily be GST-free – see section 14 “Seminars, houseparties and spiritual retreats”.
Seminars and conferences for other purposes such as management skills	Taxable	Yes	
Hospitality	Taxable	Yes	
Poor relief	GST-Free	No	Gifts of money or supplies of goods and services provided at no cost or for a consideration that is less than 50% of market value or 75% of the cost of providing the supply is included here. Transactions not meeting this criteria should not be classified as poor relief.
Office expenses - Telephones - Printing and stationery - Computer and Internet - Postage - Fares, tolls and parking fees	Taxable	Yes	
Professional services - Accounting/Audit - Banking Services - Government Taxes (e.g. Debits Tax) - Insurance	Taxable Input Taxed Not Applicable Taxable	Yes No No Yes	
Parish property - Electricity - Gas - Council rates - Council garbage collection fees - Water rates - General repairs - Cleaning - Replacement items - Improvement projects	Taxable Taxable Not applicable Not Applicable GST-Free Taxable Taxable Taxable Taxable	Yes Yes No No No Yes Yes Yes Yes	
Property rented (for use by staff as residence)	Input taxed	No	
Repayment of loan - interest	Input taxed	No	

Repayment of loan - principal	Not applicable	No	
Purchase of equipment	Taxable	Yes	
Purchase of commercial real estate	Taxable as GST asset purchase	Yes	
Purchase of house for a minister	Input taxed	<u>No</u>	Note: where the purchase is of new residential premises, the supply of the house may be taxable - see Section 16 "Sale and Purchase of Property (Land)".
Purchase of residential real estate	Input taxed	No	This is for a residence which will not be occupied by ministry staff – see section 16 "Sale and Purchase of Property (Land)".
Trading activities deficit #	Not applicable	No	The individual items of receipt and payments which went to make up the trading activity deficit will each have been allocated a GST status, the figure in this account is the net of these transactions.
Investments in Glebe Administration Board, bank fixed deposits, etc.	Not applicable	No	
Payments within parish	Not applicable	No	

This is not a posting account, it is the balance of several transactions in "Other Accounts" and "Other Payments".

Other Receipts / Trading activities

Receipt Item	GST Status	GST payable to the ATO	Comments
Fundraising event income	Input taxed	No	Refer to section 7 for full analysis.
Other fundraising activity income	Taxable	Yes	Refer to section 7.
Bookstall income	Taxable	Yes	
Commercial property income	Taxable	Yes	
Residential property income - Not including residences provided to ministry staff	Input taxed	No	Although non-commercial "nominal consideration" rule may make the supply GST-free (refer to section 15).

Other Payments / Trading activities

Payment Item	GST Status	Input Tax credit available	Comments
Fundraising event expenses	Taxable	No	Refer to section 7. These expenses are incurred in respect of input taxed supplies so any GST input tax credits cannot be claimed.
Other fundraising activity expense	Taxable	Yes	Refer to section 7.
Bookstall - purchase of books	Taxable	Yes	
Bookstall - purchases of cards, other items for sale and materials necessary to maintain the bookstall	Taxable	Yes	
Residential property - Electricity - Handyman repairs - Electrical repairs - Plumbing repairs - Painting - Replacement of fittings - Cleaning and waste removal - Property Agency management fees	Taxable	No	All those residential property expenses not including parish property used by ministry staff (refer to section 15). These expenses are incurred in respect of input taxed supplies so any GST input tax credits cannot be claimed - unless the non-commercial "nominal consideration" test is met and it becomes a GST-free supply (refer section 15).
Residential property - Council rates & taxes	Not applicable	No	
Residential property Water and sewerage rates	GST-Free	No	
Commercial property - Electricity - Handyman repairs - Electrical repairs - Plumbing repairs - Painting - Replacement of fittings - Cleaning and waste removal Property Agency management fees	Taxable	Yes	All these commercial property expenses have the same taxable status.
Commercial property Council rates & taxes	Not applicable	No	
Commercial property - Water and sewerage rates	GST-Free	No	

Appendix 2

Tax Invoice Checklist

1(a) Total amount of tax invoice, including GST, is \$1,000 or more:

- Price of supply
 - ABN of supplier
 - The words 'tax invoice' stated
 - The date of issue of the tax invoice
 - The name of the supplier
 - The name of the recipient
 - The address or the ABN of the recipient
 - A brief description of each thing supplied
 - For each description, the quantity of the goods or the extent of the services supplied •
- Check if GST is 10%

OR

1(b) Total amount of tax invoice, including GST, is less than \$1,000:

- Price of supply
- ABN of supplier
- The words 'tax invoice' stated prominently
- The date of issue of the tax invoice
- The name of the supplier
- A brief description of each thing supplied
- Check if GST is 10%

AND

2(a) Tax invoice is for taxable supplies only and GST payable is 1/11th of total price:

- Statement to the effect that total amount payable

OR

2(b) Tax invoice is for taxable supplies only but GST payable is less than 1/11th of total price:

- GST exclusive amount payable;
- Amount of GST payable

OR

2(c) Tax invoice is for taxable supplies and GST-free supplies; Input taxed supplies; or Supplies made before 1/7/00

- Each taxable supply clearly identified;
- Total amount of GST payable
- The total amount payable

includes GST; or

- Total amount of GST payable

AND

<i>3(a) If tax invoice is in a currency other than AUD and is issued before 1 July 2001:</i>
<ul style="list-style-type: none">• No particular requirements
OR
<u>3(b) If tax invoice is in a currency other than AUD and is issued on or after 1 July 2001:</u>
<ul style="list-style-type: none">• GST payable in Australian currency is included on tax invoice; or• Sufficient information is provided to the recipient to work out GST payable in Australian currency