

Circular to Parish Councils, Ministers and Churchwardens

1 July 2000 - Goods and Services Tax Begins!

Introduction

A Goods and Services Tax (GST) is to be introduced with effect from 1 July 2000.

This circular is intended to be an introduction explaining the basic concepts of the GST. In the coming months we will provide more detailed information about the legislation and the steps which parishes will need to take to comply with it. However, before providing more detailed information, the fundamentals of GST need to be understood.

What is GST?

GST is a tax on the supply of goods and services and will be at 10% from 1 July 2000. However, it is broader than merely a tax on the supply of goods and services as those terms would usually be understood. GST is also charged on the provision of advice and information and the transfer of rights.

A Value Added Tax

The GST is a value-added tax. It is designed to collect tax on the value added at each step of a series of business transactions. The final consumer of the goods or service is intended to pay the full amount of the tax but the tax is collected by the Australian Taxation Office (ATO) at each step in the process. This is achieved on the basis of the following general principles -

- (a) a person who supplies a good or service pays tax on the value of the good or service supplied; but
- (b) while paying GST, the supplier is entitled to claim credit (called an input tax credit) in respect of the tax included in the price of any goods or services which that supplier used to produce his good or service.

A simple example is the production of a book.

In each step of the process one-eleventh of the price charged is the GST. (Say the price before GST is \$10, the supplier will add \$1 on account of GST to make the GST inclusive price \$11.

The GST is therefore \$1 on \$11 or one-eleventh. This amounts to 10% of the price before GST.)

	GST Paid Credit \$	Claimed \$
Paper mill sells paper to publisher for \$4.40	0.40	0.00
Publisher sells book to wholesaler for \$11.00	1.00	0.40
Wholesaler sells book to retailer for \$14.30	1.30	1.00
Retailer sells book to customer for \$27.50	2.50	1.30
Totals	5.20	2.70

In the example the customer pays \$27.50 for the book which includes \$2.50 on account of GST. The ATO has been paid a total of \$5.20 from the four links in the process but the ATO has given credits to the publisher, wholesaler and retailer of \$2.70, so the ATO has received a net \$2.50.

How will the GST affect Parishes?

The imposition of a GST does not necessarily mean that everything purchased by the parish will increase in price by 10%. With the introduction of the GST, the Government is abolishing sales tax. Currently, the church only has a limited exemption from sales tax and pays sales tax on many goods. The abolition of sales tax may mean that a parish will pay less for a particular good than at present, even allowing for the GST. Since services are not presently taxed, the price of services provided to a parish could be expected to increase with the imposition of a GST.

Some supplies are exempted from GST and these are referred to later under the heading "Exempted Supplies of Goods and Services".

While we will provide more information about these matters in due course, our preliminary review of the taxable status of items of common expenditure by parochial units is as follows -

Item	Taxable Status
Stipends, salaries and allowances	Not taxed
Superannuation	Not taxed
Accommodation rented for staff	Not taxed
Parish cost recoveries (Diocesan assessments) (Some or all of these recoveries may be taxed)	Uncertain
Printing, stationery, postage and telephone	Taxed at 10%
Repairs, maintenance and cleaning	Taxed at 10%
Insurances on workers compensation, property and equipment etc	Taxed at 10%
Electricity and gas	Taxed at 10%
Water rates	Not taxed
Council and Private waste services	Taxed at 10%
Donations made to missions	Uncertain

Repayment of loans	Not taxed
Improvements to property	Taxed at 10%
Investments	Not taxed
Purchase of equipment (but cars are subject to transitional arrangements which may make the rate of tax higher for the first year or so of GST.)	Taxed at 10%
Purchase of real estate - Real estate if an existing residential premise which is not to be used as a commercial residential premise. Newly built residential premises or commercial premises.	Not taxed
Poor relief payments	Not taxed
Flowers	Taxed at 10%
Unprepared food	Not taxed
Prepared food or meals	Taxed at 10%
Books	Taxed at 10%

You may wish to look down the list of payments that you made in 1998, add up those payments which are probably taxable and see how much GST you would have paid at the 10% rate for the year.

Exempted Supplies of Goods and Services

The church is both a buyer of goods and services and a supplier of goods and services (particularly religious services) as defined by the GST legislation.

There are two classes of exemptions from GST.

The first class of exemption is "GST-free" supplies where no GST is payable on the supply but the supplier may be entitled to an input tax credit for GST on anything acquired to make the supply. The supply of "religious services" (as defined in the legislation) will be GST-free. In simple terms, this means that the parish will not have to pay GST in respect of the supply of such services and may be entitled to a credit for the GST, if any, included in the price of goods and services purchased by the parish for use in connection with the supply of "religious services". Examples of the types of goods and services purchased by a parish for which a credit for GST may be available include the church telephone expenses, the church electricity expenses and the cost of repairs to the church building.

The second class of exemption is supplies which are "input taxed" where no GST is payable on the supply and the supplier is denied an input tax credit for GST on anything acquired to make the supply. An example of a supply which is "input taxed" is the supply of residential rental accommodation. If your parish owns a house which it leases to someone else, the parish will not have to pay GST on the rent received. However, the parish will not be able to claim an input tax credit for the GST on any goods and services purchased for the purpose of making the supply. Therefore, the parish will not be able to claim a credit for GST charged by an estate agent in connection with his service to the parish, or charged when maintenance work is carried out on the residence.

Similarly, if the parish leases a residence for the use of a pastoral worker, the parish will not be charged an amount on account of GST by the lessor. Since no GST has been charged, the parish will not be able to claim an input tax credit in respect of the rent paid under the lease.

Can My Parish Ignore the Work Involved in the GST?

Yes! If the annual turnover of the parish is less than \$100,000, the parish is not required to "Register" under the GST legislation. This means that for any supplies you make you do not pay GST to the ATO but you also cannot claim input tax credits for the GST included in the price of supplies your parish has paid for. While we will provide further information in due course it appears that "annual turnover" does not include offertory, donations, interest or rents received for residential premises but will include rents or fees received from the lease of halls or commercial premises and some fund-raising activities.

If your annual turnover is \$100,000 or more, you must register with the ATO. If your annual turnover is below \$100,000 you may register with the ATO. Give Ken Bowden a call on 9265 1561 and he will help you to determine whether registering is a good option for your parish.

Help!

Yes, there will be help available to you.

The ATO is preparing information booklets, one of which will deal specifically with issues relating to parishes and charitable institutions. (We have been consulted in its drafting.)

We are planning a series of meetings with ministers, churchwardens, treasurers and parish councillors to explain GST on a face-to-face basis.

We are searching for programs which will comply with the GST legislation and assist in making the necessary returns for those with computers.

You will not be left to your own devices.

And Finally?

Please let us have your feedback on this circular. Can we improve our communication to the parishes about GST?

KEN BOWDEN

2 September 1999.

