

Trade-Ins (not including Real Property)

Standard

QH-IMP-267-2-42:2015

1. Statement

This Standard describes the processes for GST implications and tax codes for trade-ins.

2. Scope

Compliance with this standard is mandatory.

This standard shall apply to all employees, contractors and consultants within the Department of Health divisions and commercialised business units as well as Hospital and Health Services.

3. Requirements

Introduction

The GST legislation treats a trade-in as two separate transactions. Using the example of a trade in of a motor vehicle on a new motor vehicle, the two transactions would be:

1. Dealer selling a motor vehicle to Queensland Health (QH) at the full GST inclusive price
2. QH selling the trade in motor vehicle to the dealer at the full GST inclusive value

Regardless of the type of asset being used as a trade in, the transaction must always be treated as two separate transactions. This way both parties will reflect the sale and purchase in the Business Activity Statement (BAS).

IMPORTANT NOTE TO ASSET OFFICERS: To ensure that the supplier receives the net payment only, when raising the Purchase Order in FAMMIS for the purchase of an Asset, the current procedure should not be changed

Summary of Tax Codes

| Description | GST Treatment | Tax Code |
|--|--|----------|
| Capital acquisition from ABN & GST registered supplier | 10% GST included in the price of the acquisition | C0 |
| Capital acquisition from ABN only registered supplier | 0% GST included in the price | C5 |
| Capital acquisition – non-compliant tax invoice | 10% GST included in the price of the acquisition – not claimable | C2 |
| Compulsory Third Party | Non-compliant Tax Invoice only available | P2 |
| Compulsory Third Party | Compliant Tax Invoice received after payment | C0* |

| Description | GST Treatment | Tax Code |
|---|---|----------|
| Insurance on Motor Vehicles | Compliant Tax Invoice received after payment | C0* |
| Motor Vehicle registration fees | 0% GST – Division 81 Fee | C5* |
| QH trades in an asset | Charities Rule not applicable – 10% GST included in price | S0 |
| QH trades in an asset | Charities Rule applicable – 0% GST included in the price. Documentation necessary to substantiate use of Charities Rule | S5 |
| <i>If under capital asset threshold (< \$5000) – use equivalent ‘P’ codes</i> | | |
| <i>*Note: Additional on-costs, such as registration, are capitalised (C tax code) with the initial purchase of the motor vehicle only. Subsequent year’s payments for such items are expensed (P tax code) as per normal process.</i> | | |

Trade-Ins – Sale & Purchase both Taxable Supplies

For the purpose of demonstrating the rationale to be used when purchasing an asset or using an asset as a trade-in, the following scenario is a common example:

EXAMPLE:

| Scenario: XYZ Motors Pty Ltd is selling a Toyota Tarago Wagon to QH. The details on the compliant tax invoice that is issued by XYZ Motors Pty Ltd are as follows: | | | | |
|--|-------------|-------------|-------------|----------|
| | GST excl. | GST | GST incl. | Tax Code |
| Cost price of Toyota Tarago | \$50,000.00 | \$ 5,000.00 | \$55,000.00 | C0 |
| Total price | \$50,000.00 | \$ 5,000.00 | \$55,000.00 | |
| XYZ Motors Pty Ltd has indicated that they are prepared to pay QH \$22,000.00 (GST inclusive) for the Holden Station Wagon that is being used as a trade-in. | | | | |
| | GST excl. | GST | GST incl. | Tax Code |
| Trade-in price of Holden Station Wagon | \$20,000.00 | \$2,000.00 | \$22,000.00 | S0 |
| Total price | \$20,000.00 | \$2,000.00 | \$22,000.00 | |

Processing the purchase through FAMMIS

The net amount owing to the car dealer is the amount after deduction of the value of the trade-in. It is important that, while processing the transaction in FAMMIS, steps are taken to ensure that it is the net amount only that is paid to the car dealer.

For further information on FAMMIS processes, it is recommended that users either contact the FAMMIS Help Desk on 1800 818 399 or visit *FAMMIS On Demand* where instructions can be found on how to retire an asset.

Vehicle/Asset retirement process

The actual taxable sale transaction will be captured on FAMMIS via the Vehicle/Asset retirement process when the trade-in amount will be coded to 'S0' and therefore QH will report 1/11th as GST to the Australian Taxation Office (ATO).

GST treatment for other costs

The following tax codes are for compulsory third party insurance, comprehensive insurance, stamp duty and registration fees:

Motor Vehicle Insurance & Compulsory Third Party Insurance

A compliant tax invoice is not always available until after payment is made and therefore transactions cannot be coded to P0 in the first instance.

It should be noted that GST will not apply to the total amount of the invoice as this will also contain charges that do not attract GST.

This situation may not be applicable if the motor vehicle insurance is paid through an insurance broker who may provide a compliant tax invoice in the first instance.

| Description | GST Treatment | Tax Code |
|--------------------------------|---|----------|
| Payment of insurance premium | Where only a non-compliant Tax Invoice is on hand | P2 |
| Compliant Tax Invoice received | Raise journal to change tax codes according to information on tax invoice or process initial tax invoice according to information contained therein | C0/C5 |

Refer to GST Standard – Compulsory Third Party Insurance Premiums

Stamp Duty

A Government Entity is exempt from stamp duty in respect of the transfer and registration of vehicles under section 390(1)(f) of the Duties Act 2001. If Stamp Duty has been charged by the supplier, an amended Tax Invoice will need to be requested prior to payment.

Registration Fees

Motor vehicle registration fees are not subject to GST as they are a tax fee or charge dealt with under Division 81 of the GST Act.

| Description | GST Treatment | Tax Code |
|---------------------------------------|--------------------------|----------|
| Payment of motor vehicle registration | 0% GST – Division 81 fee | C5 |
| Payment of motor vehicle CTP | 10 % GST | P0 |

Trade-in of Motor Vehicles for Charities and DGRs

As referred to in the GST Standard – Asset Disposals, there may be situations where the item being sold is not a taxable supply.

The Charities Rule/Non-Commercial Rule

As most individual hospitals (but not Hospital and Health Services) have been granted "Deductible Gift Recipient" (DGR) status, under Section 38-250 of the Act, the Charities Rule/ Non-commercial rule can be applied in certain situations.

If you trade in a motor vehicle, the trade-in will be GST-free if the payment you receive is:

- less than 50% of the GST-inclusive market value of the vehicle (first non-commercial rule), or
- less than 75% of the amount you paid to purchase the vehicle (second non-commercial rule)

First Non-commercial rule – less than 50% of market value

If hospitals trade in a motor vehicle, the trade-in price will be the full market value of the vehicle. Therefore the trade-in will not be GST-free under the first of the non-commercial rules above.

Second Non-commercial rule – less than 75% or original price

If hospitals trade in a motor vehicle and the trade-in price is less than 75% of the amount paid on the original purchase of the motor vehicle (including GST), the trade-in will be GST-free under the second of the non-commercial rules

Where the non-commercial rules apply, hospitals must treat the trade-in as GST-Free. Hospitals cannot choose to treat the trade-in as a taxable sale and issue a tax invoice to the dealer. The dealer is not entitled to a GST credit on a GST-free trade-in.

In the example previously shown on Page 3, both the trade-in transactions were treated as taxable. If the scenario now changes to the seller being, for example, Charleville Hospital, there is a possibility that the supply from Charleville Hospital to the car dealer is GST-free.

For GST purposes, the following amounts are included in the purchase price of a motor vehicle:

- the original cost of the vehicle (including GST and any luxury car tax)
- the cost of optional extras (including GST)
- the cost of any other modifications made at the time of purchase or at subsequent time (including GST)
- the cost of delivery (including GST)

The following amounts are not included in the purchase price of a motor vehicle:

- stamp duty (not applicable to hospitals)
- motor vehicle registration
- compulsory third party insurance

Steps to verify whether the Non-commercial rule affects a motor vehicle trade-in:

STEP 1 Check on the ABR web site to ensure that the DGR status is relevant:
www.abr.business.gov.au

Enter Hospital and Health Services' ABN or name and then check under the Deductible Gift Recipient section.

Deductible gift recipient status
 help

Darling Downs Hospital and Health Service operates the following funds, authorities or institutions. Gifts to these funds, authorities or institutions may be deductible.

| Fund, authority or institution name | DGR Item | From |
|-------------------------------------|----------|-------------|
| BAILLIE HENDERSON HOSPITAL | Item 1 | 01 Jul 2012 |
| CHERBOURG HOSPITAL | Item 1 | 01 Jul 2012 |
| CHINCHILLA HOSPITAL | Item 1 | 01 Jul 2012 |
| DALBY HOSPITAL | Item 1 | 01 Jul 2012 |
| GOONDIWINDI HOSPITAL | Item 1 | 01 Jul 2012 |
| INGLEWOOD HOSPITAL | Item 1 | 01 Jul 2012 |

STEP 2 Is the Trade-in

- a. less than 50% of the (current) market value of the vehicle or,
- b. less than 75% of the original price of the motor vehicle?

Example:

Scenario: XYZ Motors Pty Ltd is selling a Toyota Tarago Wagon to a hospital. The details on the compliant Tax Invoice that is issued by XYZ Motors Pty Ltd are as follows:

| | GST excl. | GST | GST incl. | Tax Code |
|-----------------------------|--------------|-------------|--------------|----------|
| Cost price of Toyota Tarago | \$ 50,000.00 | \$ 5,000.00 | \$ 55,000.00 | C0 |
| Total price | \$ 50,000.00 | \$ 5,000.00 | \$ 55,000.00 | |

XYZ Motors Pty Ltd has indicated that they are prepared to pay the hospital \$22,000 (current market value) for the Holden Station Wagon that is being used as a trade-in. The hospital originally paid \$45,000 (adjusted for GST purposes) for the motor vehicle. This represents 64.71% of the original price and therefore could be treated as GST-Free. The motor dealer may therefore reduce the trade in amount to \$20,000.00 as this would be the net cost in either situation.

| | GST excl. | GST | GST incl. | Tax Code |
|--|-------------|-----|-------------|----------|
| Trade-in price of Holden Station Wagon | \$20,000.00 | - | \$20,000.00 | S5 |
| Total price | \$20,000.00 | - | \$20,000.00 | |

It is important to remember that whenever the hospital implements the Non-commercial Rule in making any business decisions, documentation must be kept on record showing the rationale used; in this case this would be whether 2(a) or (b) above were used. If using rationale 2(b), it will be necessary to attach documentary evidence of the original purchase price; e.g. copy of dealer’s invoice at the time of purchase.

Example of information contained in Charities Rule documentation:

| | | | |
|--|--|-------------|---|
| Type of Supply | TRADE IN OF MOTOR VEHICLE | | |
| Amount charged by Queensland Health | [A] | \$20,000.00 | |
| GST inclusive Market Value | | \$20,000.00 | |
| 75% of GST incl Market Value (Accommodation) [B] | [B] | \$15,000.00 | 50% of GST incl Market Value (other than accommodation) [B] \$10,000.00 |
| Cost of providing supply | | \$45,000.00 | 75% of cost of providing [C] \$33,750.00 |
| Is the amount charged [A] less than either [B] OR [C] | Yes <input type="checkbox"/> No <input type="checkbox"/> | | |
| If answer is YES , the supply is GST-free under the Charities Rule | | | |
| HOW GST INCLUSIVE MARKET VALUE WAS OBTAINED | | | |
| This is based on the amount that the motor vehicle dealer is prepared to offer as a trade in value | | | |
| HOW THE COST OF PROVIDING WAS CALCULATED | | | |
| This is the original purchase price of the motor vehicle and documentary evidence is attached | | | |

If you and the dealer agree on a trade-in price that is less than 75% of the price you originally paid for the vehicle, you do not have to issue a tax invoice for the trade-in and the dealer is not entitled to claim a GST credit. For record keeping purposes, you may issue an invoice that clearly shows the trade-in does not include GST.

Process for a Motor Vehicle Trade In Applying the Charity Rule

Example: A dealer has issued a New Motor Vehicle Quotation as follows;

| | |
|--|-----------------|
| Cost of a New Motor Vehicle | \$50,000 |
| GST on MV | \$5,000 |
| Registration | \$350 |
| CTP | \$200 |
| GST on CTP | \$20 |
| Total including GST | <u>\$55,570</u> |
| Trade in Value | <u>\$20,000</u> |
| Net Changeover (total to be paid by QH) | \$35,570 |

Process as follows:

| | | Tax Code | Value | GST | Total (incl GST) |
|--------------------------------|--------------|----------|------------|---------|------------------|
| Purchase Order | MV(Asset Ac) | C0 | \$30,000 | \$3,000 | \$33,000 |
| | Rego | C5 | \$350 | | \$350 |
| | CTP | C0 | \$200 | \$20 | \$220 |
| Total Purchase Order | | | \$30,550 | \$3,020 | \$33,570 |
| GPV | MV(Exp Ac*) | C0 | \$20,000 | \$2,000 | \$22,000 |
| | MV(Exp Ac*) | P9 | (\$20,000) | | (\$20,000) |
| Total Value of the Transaction | | | \$30,550 | \$5,020 | \$35,570 |

*Expense account code (530000) to be used on both sides of the transaction. The GPV is actioned only to correctly record the GST and classify the transaction for BAS purposes. This is not an asset creation transaction. The new asset is created by the Purchase Order and the disposal/trade in of the old asset.

Selling the Motor Vehicle at an Auction

If you sell a motor vehicle at auction and the successful bid is less than 75% of the amount you paid to purchase the vehicle, the sale will be GST-free.

You should inform the auctioneer before the auction that the sale may be GST-free under the non-commercial rules, otherwise the successful bidder may expect you to provide a valid tax invoice clearly showing the GST included in the price of the vehicle. There may also be misunderstandings about GST credit entitlements once the auction is concluded.

If the successful bid is 75% or more of the amount you paid to purchase the vehicle, the sale will be subject to GST. You must issue the successful bidder with a valid tax invoice or instruct the auctioneer to issue an invoice on your behalf.

What if a mistake is discovered after lodging the Activity Statement

If the hospital has previously treated a GST-free trade-in as a taxable trade-in, the hospital and the dealer may choose not to reverse the transaction. The ATO have said this will be possible only if:

- ☐ both parties are registered for GST;
- ☐ the dealer has claimed a GST credit for the trade-in;
- ☐ the hospital has paid the GST to the ATO, and
- ☐ both parties ensure that any future motor vehicle trade-ins are treated correctly for GST purposes.

The hospital cannot seek a refund of the GST we have paid to the ATO in these circumstances.

Penalties for Errors made

The hospital may incur penalties for making false or misleading statements or incorrectly keeping records. This includes knowingly issuing tax invoices to dealers showing a GST amount where the trade-in is GST-free.

Checklist for Trading In Your Motor Vehicle

Before you go to the dealer:

- Work out the amount paid to purchase your existing vehicle.
- Ensure you have the paperwork to show the amount paid (purchase invoice etc).
- Calculate 75% of the amount paid to purchase the vehicle.

At the dealership:

Have you and the dealer agreed to a trade-in price that is less than 75% of the amount you paid to purchase the vehicle?

If Yes – explain to the dealer that as the trade-in will be a GST-free sale, you are not required to supply a tax invoice and the dealer is not entitled to claim a GST credit.

If No – the trade-in will be subject to GST and the dealer may request that you issue a tax invoice within 28 days. The dealer will be entitled to claim a GST credit.

Manual Tax Invoice for the goods being traded in

This tax invoice is not raised through FAMMIS, but rather is just completed as a manual tax invoice pro forma (see the completed tax invoice template below). The words that the “dealer does not need to pay this amount” could be included in the invoice. This can be inserted as part of the text area in the pro forma. It is important to provide this to the dealer for their records in order that they can claim the GST on their purchase of the trade-in.

| TAX INVOICE | | | | |
|---|---|----------|-------------|--------------|
| ABN: 66 329 169 412 | | | | |
| Please remit payment to: | | | | |
| QUEENSLAND HEALTH 147-163 CHARLOTTE STREET BRISBANE 4000 FOR ENQUIRIES PHONE: (07) 32245454 | | | | |
| Recipient details | | | | |
| Name: XYZ MOTORS PTY LTD | | | | |
| Street Address: WILLIAM STREET | | | | |
| Postal Address: NORTH QUAY 4000 | | | | |
| ABN: 66009780812 | | | | |
| Invoice No: | | | | 123 |
| Date of Issue: | | | | 18 Jan 2007 |
| Tax Status | Description | Quantity | Unit Price | Total |
| * | Sale of Holden Station | 1 | \$22,000.00 | \$22,000.00 |
| | PAYMENT IS NOT REQUIRED - FOR TAXATION PURPOSES | | | \$ - |
| INVOICE TOTAL | | | | \$ 22,000.00 |
| AMOUNT OF GST INCLUDED IN THE INVOICE TOTAL | | | | \$2,000.00 |

Under some circumstances, the dealer may issue QH with an RCTI.

4. Related legislation and documents

- Financial Management Practice Manual
- A New Tax System (Goods and Services Tax) Act 1999
- Duties Act 2001
- GST and motor vehicle trade-ins for charities – ATO Fact Sheet (NAT 12353)
- GST Standard – Asset Disposals
- GST Standard – Compulsory Third Party Insurance
- GST Standard – Gift Deductibility Status and the Charities Rule
- GST Standard – Manual Tax Invoices
- GST Standard – Recipient Created Tax Invoices
- GST Standard – Charities Rule Documentation
- GST Standard – Stamp Duties Declaration

5. Definitions

| Term | Definition |
|---------|--|
| GST Act | A New Tax System (Goods and Services Tax) Act 1999 |
| ATO | Australian Taxation Office |

Version Control

| Version | Date | Comments |
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| 1 | 01/12/2006 | |
| 2 | 19/01/2007 | Christine Mardon |
| 3 | 29/10/2007 | Christine Mardon |
| 4 | 06/04/2009 | S Singh |
| 5 | 15/04/2011 | Katia Flanigan |
| 6 | 01/06/2015 | Policy Rationalisation Project |