
Practice Update

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and contact this office
if you have any queries

MAY 2003

GST and the credit card surcharge

The ATO has issued a "Factsheet" on the GST effect on the new credit card surcharges that merchants have been able to charge from 1 January 2003 where a credit card holder uses a credit card to pay for a supply.

The factsheet states that the surcharge is part of the consideration for the supply made by the merchant and that GST is payable on taxable supplies.

Example 1: Purchase of a shirt – taxable supply

Anastasia is in a store and decides to purchase a shirt. The shirt's price tag indicates that the price is \$55 (inclusive of GST). There is a sign at the counter indicating that a surcharge of 3% of the price will be imposed if payment is made by credit card.

Anastasia decides to pay by credit card and the merchant imposes a surcharge of \$1.65 in respect of the sale. The price payable in respect of the shirt is now \$56.65.

As the supply of the shirt is a taxable supply, the GST payable in respect of the sale is \$5.15, being 1/11 of the GST inclusive price of \$56.65.

Example 2: Purchase of fruits and vegetables – GST-free supply

Ming Ho, a fruit and vegetable retailer, purchases his stock from a wholesaler. In one particular purchase, the price for the fruits and vegetables comes to \$1,100.

The wholesaler imposes a surcharge of 2% on the price if payment is made by credit card.

Ming Ho pays by credit card and incurs a surcharge of \$22. The price paid in respect of the fruits and vegetables will be \$1,122.

The supply of the fruits and vegetables is a GST-free supply and GST is not payable in respect of the sale.

Walk-ins by ATO officers

Editor: In a recent statement, the ATO has said that following the introduction of the GST, its new practice of "walk-ins" would continue. Should one occur to any of our clients, the following excerpt from that statement may help. Or call us.

"Fundamental to the integrity of the new tax system is that businesses hold a valid ABN and are registered for GST and PAYG withholding, where required. We (the ATO) have developed the walk-ins concept as part of our general approach to compliance.

We developed the walk-ins procedure primarily to address registration issues within the tax system but walk-ins also provide:

- ◆ an opportunity for our staff to make contact with a broad range of clients;
- ◆ clear evidence to the community that we have a presence in the business environment and are concerned about registration issues; and
- ◆ an opportunity for taxpayers to ask any questions they may have about the new tax system.

Walk-ins are a brief check of an entity's tax situation. Basically . . .

- ❑ A tax officer visits the business premises.
- ❑ The officer introduces himself or herself, asks to speak to the owner/manager and explains the reason for the visit.
- ❑ The officer checks and notes whether the business:
 - has an ABN;
 - is registered for GST and is charging GST;
 - has employees (PAYG withholding); and
 - is up to date with its activity statement lodgment.
- ❑ The officer asks if they have any questions about their tax obligations.
- ❑ The officer leaves a business card.
- ❑ After returning to the office, the officer verifies the information collected and follows up anything of concern.

Walk-ins can be undertaken as a stand-alone field intervention or as an adjunct to other activities such as:

- ◆ industry-specific checks, for example, visiting all restaurants in a particular area;
- ◆ checks on markets, swap meets and the like;
- ◆ visits to industrial areas, trade centres and shopping centres; and
- ◆ visits to regional and remote businesses when officers are in the area.

Editor: When anyone asks to enter your premises for such a purpose, ask for I.D. which all tax officers must carry. They'll be pleased to comply.

Change to FBT diminishing depreciation rate for cars

The Government has announced that it will amend the FBT legislation so that it reflects the change in effective life of cars for income tax purposes from 6.66 years to 8 years.

The change to the effective life of cars means the diminishing value depreciation rate for cars for FBT purposes will now be 18.75% – a reduction in FBT.

The proposed new rate applies to cars acquired on or after 1 July 2002, and to FBT returns for the year ending 31 March 2003.

The amount to be reported as a car benefit in an individual employee's payment summary (formerly group certificate) can also be calculated on the lower rate if the car was acquired on or after 1 July 2002.

Per kilometre car claims

The following are the per km rates for car claims up to 5,000 business kms for 2002/2003 based on the size of the engine:

Non-rotary engine	Engine capacity		Rate per km (cents)
	Up to 800cc	Rotary engine	
Up to 1,600cc	Up to 800cc		50c
1,601 to 2,600cc	801 to 1,300cc		60c
Over 2,600cc	Over 1,300cc		61c

Clamp down on 'extra' interest on capital protected products

The Government has decided to legislate, from 16 April this year, that the "cost of capital protection" in a capital protected product* is not interest and is not deductible.

Note(): In a typical capital protected product, there are:*

- ◆ the financial institution which creates the capital protected product so as to lend funds to potential investors; and
- ◆ the investor, who borrows money to buy shares, and is protected from a fall in the price of the shares by a facility in the loan that gives the investor the right to transfer the shares back to the lender for the amount outstanding on the loan. Interest on the loan is inflated above market rates to, effectively, pay for this "insurance".

The proposed amendment applies to capital protected products that are used to acquire listed shares, units and stapled securities.

The CGT provisions will ensure that the cost of capital protection is included in the cost base of the relevant asset for CGT purposes.

The amendment applies to arrangements, including extensions of existing arrangements, entered into on or after 9.30 am Canberra time 16 April 2003.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.