Edition 37

GST – Adjustments and Mistakes

INTRODUCTION

The application of GST to supplies and recording GST amounts on Activity Statements can both prove quite complex. As a result, mistakes are sometimes made. In addition, adjustments often need to be made to GST amounts recorded on a prior Activity Statement to take account of changes in relation to supplies made by a GST-registered entity. These include both increasing and decreasing adjustments.

Given this often regular need for corrections and adjustments, it is essential that bookkeepers, tasked as you are with the responsibility of completing Activity Statements, know how to properly discharge your responsibilities in these key areas. This edition of Bookkeepers Knowledge Base focuses on GST – Adjustments and Mistakes. In providing you with an up-to-date bank of knowledge in this area, the following topics will be canvassed:

Part I – Adjustments

- Adjustment events;
- Adjustment notes;
- Cancellation of registration;
- Calculating an adjustment for sales and purchases;
- Making adjustments on the Activity Statement;
- Appendix.

Part II – Mistakes

- What is a mistake?
- Time limits;
- Correction limits;
- Tax agent reconciliations;
- Correcting mistakes on the Activity Statement;
- Mistake concession steps;
- Case Study.

PART I - ADJUSTMENTS

In the commercial world, subsequent changes to transactions sometimes make it necessary to adjust the GST amounts (both in relation to GST payable to the Tax Office and GST credits that you have claimed) previously reported on Activity Statements. Typically, adjustments are made because an event has happened (after a GST amount has been reported to the Tax Office) where:

- The consideration of a taxable supply or acquisition has changed (e.g. a refund is given);
- The GST status of an item has changed (e.g. a taxable item becomes GST-free); or
- A supply is cancelled.

Such events (see later list) result in either an increase or a decrease in the amount of GST that an entity owes the Tax Office or an increase or a decrease in the amount of GST credits that an entity is entitled to receive from the Tax Office.

It follows that there are two types of adjustments. Firstly, increasing adjustments are those that result in an increase in an entity's net GST liability for a reporting period. This type of adjustment occurs when an entity's entitlement to GST credits on its acquisitions decreases or the GST payable on supplies that it has made increases.

Example – Increasing Adjustment

Fox Pty Ltd (a GST-registered entity) purchased some taxable office equipment for its legal practice from Fred's Furniture Pty Ltd. Both parties report their GST on a monthly basis. Two months after the initial purchase, Fox receives a customer loyalty discount on the purchase.

For Fox, this discount will result in an increasing adjustment needing to be made – its GST credit entitlement has decreased. This is because the amount of GST that they have effectively paid after the discount is less than the GST in the original transaction.

Secondly, a decreasing adjustment results in a decrease in an entity's net GST liability for a reporting period. This type of adjustment occurs when an entity's entitlement to GST credits on its acquisitions increases or the GST payable on supplies that it has made decreases.

Example – Decreasing Adjustment

Following on from the Fox example above, for Fred's Furniture, the supply will result in a decreasing adjustment needing to be made – its GST payable to the Tax Office has decreased. This is because the amount of GST payable to the Tax Office after the discount is less than the GST payable in the original transaction.

As per the above examples, for an adjustment to be required, the adjustment event must have occurred in a later tax period (i.e. in a later month for monthly payers; in a later quarter for quarterly payers etc) than the original transaction. If the adjustment event occurs in the same tax period as the original transaction, there is no need for an adjustment to be made, because the end of tax period recording of the transaction will reflect the adjustment event anyway.

ADJUSTMENT EVENTS

The following table lists typical transaction events that are likely to occur in the commercial world, and shows which of those events constitute an adjustment event.

	ADJUSTMENT EVENT?	
EVENT	**YES**	**NO**
You make a purchase that becomes a purchase that you are entitled to claim a GST credit for.	√	
The price of a purchase you make changes after you have claimed a GST credit (e.g. you receive a discount)	√	
You make a purchase that becomes a purchase that you are not entitled to claim a GST credit for	√	
A purchase that you made is cancelled	√	
Incorrect calculation of GST		√
You write off a bad debt in relation to a taxable sale that you made	√	
You recover an amount from a bad debt that you had previously written off	√	
You become aware that a debt from a taxable sale that you made has been overdue for 12 months or more	√	
You recover an amount of a taxable sale that was overdue for 12 months or more	√	
There is a change in the creditable use of an acquisition	√	
A foreign currency gain or loss is made on a fixed price contract		√

You correct an error in an earlier Activity Statement		√
Promotional rebates (e.g. where an entity is required, after having purchased a product, to promote / advertise it – i.e. the cost of the advertising / promotion is not an adjustment event)		√

	YES	**NO**
A payment cheque is dishonoured		√
You make a sale that becomes taxable (e.g. where goods, intended to be exported, are supplied but not exported within 60 days)	√	
You make a sale that stops being taxable	√	
A taxable sale that you made is cancelled	√	
The price of a taxable sale that you made changes (e.g. you give a customer a rebate)	√	

In addition to the above adjustment events, later we elaborate on the adjustment effect of a cancellation of GST registration. It should be noted that an adjustment event arising from a change in the creditable use of an acquisition has been dealt with in a previous Bookkeepers Knowledge Base. Please contact us if you wish to obtain a copy of that edition.

ADJUSTMENT NOTES

To claim GST credits, a GST-registered entity needs to hold a tax invoice at the time the credits are claimed on an Activity Statement. However, if an adjustment event happens, this means that the original tax invoice in relation to the supply no longer accurately reflects the completed transaction. To overcome this problem, if an event happens that results in a decreasing adjustment (see earlier) an entity needs to hold an adjustment note (which, in effect, updates the original tax invoice) at the time it lodges its return for the reporting period in which the adjustment is claimed.

An adjustment note does not have to be requested by the purchaser. Rather, it falls to the supplier to provide an adjustment note within 28 days of becoming aware of an adjustment. This is provided that a tax invoice was issued (or requested) in relation to the initial supply. However, if the supplier is unaware of the adjustment or fails to voluntarily provide an adjustment note, the recipient can request an adjustment note from them – in which case it must be provided within 28 days of the request.

Like invoices, the content of an adjustment note depends on the amount of the original supply. If the total amount payable for the original supply exceeds $1000, the legislation provides that the adjustment note must include:

- The words ‘adjustment note’ prominently stated;
- The difference between the former and the new, adjusted amount;
- A brief explanation of the reason for the adjustment;
- The amount of the adjustment to the GST payable or a statement that the difference in the price of the taxable supply includes GST;
- The name of the supplier;
- The ABN of the issuer;
- The name of the recipient;
- The address or ABN of the recipient; and
- The issue date of the adjustment note.

By contrast, where the total GST-inclusive amount payable of the original supply was less than $1000, a slightly less detailed adjustment note can be issued. That is, the name, address and ABN of the recipient do not have to be included.

Finally, in the rare case that the original invoice was a recipient created tax invoice (RCTI) the adjustment note should likewise be issued by the recipient.

CANCELLATION OF REGISTRATION

An often overlooked adjustment event can occur when an entity ceases to be GST-registered. This typically happens when an entity closes down or when its annual turnover falls below $50 000 and it elects to no longer be part of the GST system. In such cases, the acquisitions that the entity still holds, and for which it claimed GST credits, result in an increasing adjustment. This is because the assets will no longer be used to make taxable supplies within the GST system.

The entity's GST liability is increased to the extent that the asset still has value, and is calculated on the extent to which the asset was used in the entity's business. The formula for working out the amount of the adjustment is:

$1/11^{th}$ x actual application in the business x applicable value

Example

Due to a slump in sales, Brandon is closing down his pizza delivery business and the only asset remaining is a pizza oven. The oven was used 90% for business purposes. Brandon purchased the oven for $7 200 (GST-inclusive) and claimed GST credits at the time. The oven is now worth $4 000.

The increasing adjustment, arising from the cancellation of GST registration, is $327 and is worked out in the following way:

Step 1: $4 000 (applicable value) divided by $1/11^{th}$ = $363.63

Step 2: $363.63 x 90% (actual application in the business) = $327

This adjustment will be made in Brandon's concluding tax period.

CALCULATING AN ADJUSTMENT FOR SALES AND PURCHASES

Calculating an adjustment for sales and purchases (the areas where most adjustment events occur) is a relatively simple process.

A] Adjustments Relating to Purchases

In calculating adjustments relating to purchases, the adjustment amount is the difference between:

1. The GST credit that you claimed for your purchase and

2. The amount of GST that you would have claimed for the purchase if the circumstance that led to the adjustment event was taken into account.

If 1 is more than 2, the difference constitutes an increasing adjustment.

If 2 is greater than 1, the difference constitutes a decreasing adjustment.

Example

Timothy purchased a computer for his business. The computer cost $2 200 (GST-inclusive) and Timothy claimed a $200 GST credit. Two reporting periods later Timothy, because he was a loyal customer, received a rebate for the computer of $100. The price of the computer was discounted to $2 100 (GST-inclusive).

Applying the above formula:

1. The GST credit claimed for the purchase is $200

2. The GST credit after the adjustment event was taken into account is $190

Therefore, because 1 is greater than 2, the difference of $10 constitutes an increasing adjustment – Timothy's GST liability has increased by $10.

B] Adjustments Relating to Sales

In calculating adjustments relating to sales, the adjustment amount is the difference between:

1. The actual GST you paid or were liable to pay (to the Tax Office) on the original sale and

2. The amount of GST that you would have been liable to pay on the original sale

if the circumstance that led to the adjustment event was taken into account.

If 1 is more than 2, the difference constitutes a decreasing adjustment.

If 2 is greater than 1, the difference constitutes an increasing adjustment.

Example

Torenbeek Pty Ltd sells an item GST-free for export for $8 000. The purchaser fails to export the item within 60 days of receiving an invoice. The item therefore becomes taxable.

Applying the above formula:

1. The GST paid on the original sale is $0

2. The GST credit after the adjustment event was taken into account is $800

Therefore, because 2 is greater than 1, the difference of $800 constitutes an increasing adjustment - Torenkeek's GST liability has increased by $800.

It should be noted that, for the purchaser to claim the $800 GST credit (provided they are registered for GST), they must hold a valid tax invoice or adjustment note that reflects the changed circumstance.

MAKING ADJUSTMENTS ON THE ACTIVITY STATEMENT

As with mistakes (see later) an entity that is required to make an adjustment, must make that adjustment in the Activity Statement for the period in which it first becomes aware of the adjustment event.

You report as an adjustment only the amount that you pay during your reporting period if:

- You account for GST on a cash basis;
- You have an adjustment arising from an adjustment event; and
- As a result of an adjustment event, you must make a payment.

Therefore, if you do not pay anything in a reporting period, you do not report an adjustment amount.

If an entity uses the calculation worksheet method (as is the case with the vast majority of bookkeepers) you can either:

- Include the amount of the adjustment multiplied by 11 at G7 (adjustments) of the calculation worksheet if the amount is an increasing adjustment, or at G18 (adjustments) if the amount is a decreasing adjustment or
- By using your worksheets, determine the net amount of your adjustments using the adjustment worksheets provided by the Tax Office. These worksheets allow you to record all adjustments for the reporting period. At the conclusion of the reporting period, the increasing and decreasing adjustments are compared and the difference is recorded at either G7 (increasing adjustments) or G18 (decreasing adjustments) on the Calculation Worksheet.

Using this method, the steps that the Tax Office recommends, are as follows:

1. Complete the sales worksheet (see Appendix for copy of worksheet)

2. Transfer the totals from columns 4 and 5 of the sales worksheet to line 1 of the adjustments summary worksheet (see Appendix for copy of worksheet)

3. Complete the purchases worksheet (see Appendix for copy of worksheet)

4. Transfer the totals from columns 4 and 5 of the Purchases Worksheet to line 2 of the adjustments summary worksheet

5. Complete the bad debts worksheet (see Appendix for copy of worksheet)

6. Transfer the totals from columns 4 and 5 of the bad debts worksheet to line 3 of the adjustments summary worksheet

7. Complete the creditable purpose worksheet (but do not make an adjustment here if you intend to make the same adjustment at Step 9)

8. Transfer the totals from columns 7 and 8 of the creditable purpose worksheet (see Appendix for copy of worksheet) to line 4 of the adjustment summary worksheet

9. Work out adjustments for goods you use for a private purpose

10. Work out any other increasing or decreasing adjustment and multiply by 11

11. Transfer the totals to the relevant lines (6-10) of the adjustments summary worksheet

12. Transfer the net amount to G7 if you have a net increasing adjustment or to G18 if you have a net decreasing adjustment on your worksheet.

Alternatively, if you use the accounts method to complete your Activity Statement, you will determine the GST amounts from your sales and purchases from your accounts. These amounts are then reported, net of any adjustments, on your Activity Statement.

APPENDIX – WORKSHEETS

The following pages include copies of all of the Worksheets mentioned above:

- Sales worksheet;
- Purchases worksheet;
- Bad debts worksheet;
- Creditable purpose worksheet; and
- Adjustments summary worksheet.

SALES WORKSHEET

(1) **Adjustment for sales**	(2) **Amount for sales** (before the change occurred) included at G1[1] $	(3) **New amount for sales**[1] $	(4) **Increasing adjustment** Fill in this column if (3) is more than (2). Subtract (2) from (3). $	(5) **Decreasing adjustment** Fill in this column if (2) is more than (3). Subtract (3) from (2). $
Cancellation of a sale				
Reduction in amount for a sale because of a discount or rebate				
Sale has stopped being taxable[2]				
Increase in amount for a sale				
Sale has become taxable[3]				
Total				
			Transfer these totals to line 1 of adjustments summary worksheet.	

1 If the sale was partly taxable, include only the amount for the taxable part of the sale.
2 If the sale was previously taxable and stops being taxable, show zero in column (3).
3 If the sale was previously non-taxable and has become taxable, show zero in column (2).

PURCHASES WORKSHEET

(1) **Adjustment for purchases**	(2) **Purchase price** (before the change occurred) included at G10 or G11[1] $	(3) **Changed purchase price**[1] $	(4) **Increasing adjustment** Fill in this column if (2) is more than (3). Subtract (3) from (2). $	(5) **Decreasing adjustment** Fill in this column if (3) is more than (2). Subtract (2) from (3). $
Cancellation of a purchase				
Reduction in purchase price because of a discount or rebate				
A purchase stops being creditable[2]				
Increase in purchase price				
A purchase has become creditable[3]				
Total				
			Transfer these totals to line 2 of adjustments summary worksheet.	

1 If the purchase was partly creditable, include only the amount for the creditable part of the purchase.
2 If the purchase was previously creditable and stops being creditable, show zero in column (3).
3 If the purchase was previously not creditable and has become creditable, show zero in column (2).

BAD DEBTS WORKSHEET

(1)	(2)	(3) **Amount written off or recovered**[1] $	(4) **Increasing adjustment** $	(5) **Decreasing adjustment** Same as in (3). $
Sales	Writing off bad debts or debts overdue for 12 months or more.			
	Recovering bad debts written off or debts overdue for 12 months or more.			
Purchases	Bad debts written off by your supplier or debts overdue for 12 months or more.			
	Payment of bad debts written off by your supplier or debts overdue for 12 months or more.			
Total				
			Transfer these totals to line 3 of adjustments summary worksheet.	

1 If the bad debt relates to a partly taxable sale, or a purchase which is partly for a creditable purpose, include only the amount that is written off or recovered for the taxable part of the sale, or the amount that is written off or paid for the creditable part of the purchase.

CREDITABLE PURPOSE WORKSHEET

(1) Description of purchase	(2) Date aquired	(3) Full purchase price (taking into account adjustments) $	(4) Intended (or previously claimed) extent of creditable purpose %	(5) Actual extent of creditable purpose %	(6) Change in extent of creditable purpose %	(7) Increasing adjustment Fill in this column if (4) is more than (5). Multiply the amount in (3) by the % in (6). $	(8) Decreasing adjustment Fill in this column if (5) is more than (4). Multiply the amount in (3) by the % in (6). $
Total							

Transfer these totals to line 4 of adjustments summary worksheet.

ADJUSTMENTS SUMMARY WORKSHEEET

Line	Reason for adjustment	Increasing adjustment	Decreasing adjustment
	Adjustments which you can work out using these instructions	$	$
1	Adjustments for sales following adjustment events		
2	Adjustments for purchases following adjustment events		
3	Bad debts written off or recovered		
4	Change in extent of creditable purpose		
5	Goods used solely for private or domestic purposes		
	Adjustments that may require more information		
6	Insurance settlements		
7	Company amalgamations		
8	Sales of things used to make financial supplies or used privately		
9	Sales of going concerns		
10	Other adjustments		
11	**Total**	A	B
	If A is more than B, subtract B from A and show the amount at G7		
	If B is more than A, subtract A from B and show the amount at G18		

PART II - MISTAKES

Because of the complexity of both GST and Activity Statements, errors are quite common. Generally, as with adjustments, errors will either increase or decrease an entity's overall GST liability. Once recognised, such errors need to be corrected on the original Activity Statement – that is, on the Activity Statement for the period to which the error relates.

Such a correction is known as 'revising' an Activity Statement. You can revise an Activity Statement simply by telephoning the Tax Office and asking them to send out the Activity Statement that needs to be revised.

However, in recognition of the administrative burden that such a process may place upon GST-registered entities (particularly smaller entities which may have made several minor errors) the Tax Office does allow, in certain circumstances, corrections of 'mistakes' made in prior Activity Statements to be corrected on the current Activity Statement. This Tax Office concession is hereafter referred to as the 'mistake concession'.

WHAT IS A MISTAKE?

To take advantage of the mistake concession and correct an error made in a past reporting period on your current Activity Statement, the error must be a 'mistake'. Firstly, mistakes where an entity's GST liability will increase include instances where you have:

- Made clerical errors (e.g. double counted some creditable purchases or failed to include some taxable sales);
- Claimed excessive input tax credits;
- Incorrectly recorded a taxable sale as GST-free.

Interestingly, a 'mistake' does not include instances where you have simply not claimed input tax credits in a tax period on a particular supply.

Conversely, mistakes where an entity's GST liability will decrease include instances where you have:

- Made clerical errors (e.g. double counted taxable sales);
- Claimed insufficient input tax credits (e.g. recorded taxable acquisitions as GST-free; or
- Counted GST-free sales as taxable (in which case, the particular customers must be reimbursed before you make the correction).

Example

Kaplan, a carpenter, is a sole trader who pays his GST quarterly. While completing his September quarter Activity Statement, he realises that he forgot to claim input tax credits for the purchase of a drill in the March quarter and also double counted the purchase of his hammer for which he was charged GST.

In terms of whether 'mistakes' have been made, the items would be treated in the following way:

Hammer – Kaplan has made an increasing mistake (double counting a creditable purchase) which may be corrected in a subsequent Activity Statement.

Drill - Not claiming input tax credits is not a 'mistake' (see earlier) and can not be corrected in a subsequent Activity Statement. Rather, Kaplan must revise his March Activity Statement (if he holds a tax invoice) in relation to this item.

Not only must the mistake be of a certain type (those listed earlier) but it must have been, in the circumstances, both 'genuine and reasonable'. Whether a mistake is genuine and reasonable is a determination which is made having regard to the following:

- The nature of the mistake;
- The resources of the entity;
- Whether there is a pattern of similar mistakes by the entity; and
- Whether the mistake constitutes part of a manipulation of the rules.

If it is found that the mistake was not genuine and reasonable, then the entity will be required to revise the past Activity Statement (to which the mistake relates) and pay General Interest Charge (GIC) on the amount owed. Penalties on the amount owed may also be applied.

Example

LMZ Pty Ltd had an annual turnover of $500 million in the last financial year. For the last three financial years it had continually over-claimed GST credits to the amount of $20 000 per year. It has repeatedly not repaid the amounts until the last possible reporting period allowed by the time limits (see later).

This mistake would not be 'genuine and reasonable' for the following reasons:

- There is a pattern;
- The resources available to the company;
- By repeatedly taking to the last moment to repay the input tax credits, it is arguable that the mistake is part of the company's manipulation of the rules to its benefit.

Therefore, LMZ would be required to go back and revise the original Activity Statement and pay GIC (and possibly penalties) on the amount owed.

TIME LIMITS

Corrections to mistakes must be made within certain time limits. If the mistakes fall within the following time limits, they can be corrected on an entity's current Activity Statement (providing the correction limits are satisfied - see later). Otherwise, the Activity Statement to which the mistake relates must be revised.

Note that the time limits only apply to mistakes that increase an entity's GST payable (see earlier). If a mistake has been made which decreases the GST payable, then to be eligible for the concessions, the entity only has to satisfy the correction limits. It should also be noted that although time limits exist, an entity must make a correction as soon as it becomes aware of the mistake.

The time limits are based on an entity's annual turnover.

ANNUAL TURNOVER OF ENTITY	TIME LIMIT FOR CORRECTION
Less than $20 million	Up to 18 months That is: • 18 monthly Activity Statements or • 6 quarterly statements or • 1 annual GST return
$20 million or over	Up to 3 months That is: • 3 monthly Activity Statements

CORRECTION LIMITS

In order to take advantage of the mistake concession, the change in an entity's overall GST liability, as a result of the mistake, must not exceed certain limits during a particular reporting period. If the mistake exceeds the following limits, then the relevant Activity Statement must be revised. Unlike the time limits, the correction limits apply to mistakes that both increase or decrease an entity's GST liability. Again, the following limits are based on an entity's annual turnover.

ANNUAL TURNOVER OF ENTITY	CORRECTION LIMIT
Less than $20 million	Less than $5 000
$20 million - $100 million	Less than $10 000
$100 million – $500 million	Less than $25 000
$500 million - $1 billion	Less than $50 000
1 billion and over	Less than $300 000

Example

Winston Pty Ltd is an outdoor furniture manufacturer that has an annual turnover of $18 million and pays its GST amounts quarterly. In the June quarter, it purchased a $66 000 machine to be used 100% for business purposes. In filling out its June quarter Activity Statement, its accounts department wrongly attributed this purchase as GST-free.

Winston is not entitled to claim the input tax credits in the current Activity Statement because the amount subject to a correction ($6 000) exceeds the correction limit ($5000) for an entity with an annual turnover of less than $20 million. The time limits do not apply, as the amount decreases its GST liability.

Therefore, as soon as it becomes aware of the error, Winston will need to phone the Tax Office and request that it dispatch the June quarter Activity Statement and make the correction on that Statement.

The correction limits relate to **net** amounts of GST that have been underpaid or overpaid to the Tax Office during a particular reporting period. Therefore, if an entity has made more than one error during a particular reporting period, these amounts will need to be added together or set off against each other in order to determine whether the above correction limits have been exceeded.

Example

Following on from the Winston example above, assume that the company had also double-counted a $22 000 (GST-inclusive) creditable purchase of stock. That is, $2000 of input tax credits was claimed twice.

In such a case, Winston will be able to correct both of the mistakes within 18 months (i.e. on its current Activity Statement or any of its five subsequent Activity Statements in which it first becomes aware of the error) because the overall GST mistake of $4 000 ($6 000 - $2 000) amounts to less than the correction limit ($5 000) for an entity with an annual turnover of less than $20 million.

TAX AGENT RECONCILIATIONS

A further, little-known concession applies to tax agents in this area. That is, where a tax agent preparing an income tax return has problems reconciling the GST amounts in the Activity Statements that are prepared by a client or bookkeeper, the GST may be corrected in the next Activity Statement to be lodged following the preparation of the income tax return. This concession applies only to registered tax agents that have clients with a turnover of less than $20 million. The important point is that there is no dollar limit on the value of the reconciliation adjustment.

CORRECTING MISTAKES ON THE ACTIVITY STATEMENT

Making corrections on the Activity Statement is quite simple. To make the corrections, you will simply add or subtract the correction amounts at label 1A (GST payable) and / or label 1B (credit for GST paid).

The amounts added or subtracted at these labels should also be reflected at the relevant following labels:

- G1 (total sales and income and other supplies);
- G2 (exports);
- G3 (other GST-free supplies);
- G10 (capital acquisitions); and
- G11 (other acquisitions).

Example

Following on from the Winston example above, the Activity Statement would be corrected in the following way:

The machinery - Would be corrected on the current Activity Statement by increasing the amount at Label 1B (credit for GST paid) by $6 000.

There is no correction at G10 for this capital purchase, as the $66 000 would already have been recorded on the Activity Statement.

The stock - Would be corrected by reducing the amount at label 1B by $2000.

The amount at G11 is then reduced by $22 000, to reflect the incorrect double counting of stock.

MISTAKE CONCESSION STEPS

1. Has There Been a Mistake?
(A) Is it on the list of possible mistakes provided above?
(B) Is it genuine and reasonable?

IF YES - See 2 (for increasing mistakes) or 3 (for decreasing mistakes)

IF NO - The original Activity Statement will need to be revised

2. Increasing mistakes
(A) Do you satisfy the time limits?
(B) Do you satisfy the correction limits?

IF YES - You can take advantage of the mistake concession

IF NO - The original Activity Statement will need to be revised

3. Decreasing mistakes
(A) Do you satisfy the correction limits?

IF YES - You can take advantage of the mistake concession

IF NO - The original Activity Statement will need to be revised

MISTAKES - CASE STUDY

Billson Convenience Store has a turnover of $2 million. It pays its GST quarterly. In its December 2009 Activity Statement, it made the following errors:

- Recorded a pool supply taxable sale as GST-free (the GST component charged on the sale was $50);
- Recorded two forms of medicine sales (which were correctly sold GST-free) as taxable supplies (GST components of $10 and $15) and
- Claimed $100, instead of $10, of GST credits on an item of stock.

Step 1: Has there been a mistake?

- Pool supplies **–** This is an increasing mistake (counting of taxable supplies as GST-free). Upon correction, Billson's GST liability will increase by the $50 of GST that it should have been forwarded onto the Tax Office.

- Medicine - This is a decreasing mistake (counting of GST-free supplies as taxable supplies). Billson's GST liability will decrease by $25 of GST that it should have had refunded to it by the Tax Office.

- Stock - This is an increasing mistake (a clerical error – claiming excessive input tax credits). Billson's GST liability will increase by $90 of GST, representing the excessive amount of input tax credits.

Secondly, the types of mistakes, on the facts available, appear to be genuine or reasonable – not deliberate or part of a manipulation of the rules.

Step 2: Increasing Mistakes
Pool Supplies and Stock

A] Time Limit

Because these are both increasing mistakes, the time limits apply. Billson has a turnover of less than $20 million and the time limit is 18 months (or six quarterly Activity Statements). This time limit has been satisfied.

B] Correction Limit

The correction limit for an entity with less than $20 million of turnover is $5 000. Billson's correction amount is $115. It is worked out in the following way:

$140 of increasing mistakes (pool supplies and stock)
- $ 25 of decreasing mistakes (medicine)
$115

Step 3: Decreasing Mistake
Medicine

A] Correction Limit

As stated, the correction limit in this reporting period has not been breached.

It should also be noted that, because the mistake is a decreasing mistake, the time limits do not apply.

Billson can therefore take advantage of the mistake concession and correct both the increasing mistakes and the decreasing mistake on its current Activity Statement. It does not need to revise its December 2009 Statement.

Completing the Activity Statement
A] Pool Supplies

The correction resulting from the underpaid GST requires the amount at Label 1A to be increased by $50 and then the amount at Label G3 to be decreased by $550 (or $500 if it is reporting GST-exclusive amounts on its Activity Statement).

B] Stock

The correction resulting from the over-claimed input tax credits requires the amount at Label 1B to be further decreased by $90. No change to G10 or G11 as the amounts would have been recorded.

C] Medicine

The correction resulting from the inclusion of excess GST payable requires the amount at Label 1A to be decreased by $25. Then it increases box G3 by $275 (or $250 if it is reporting GST-exclusive amounts on its Activity Statement).

Disclaimer
This edition was originally written in January 2007 and last updated in February 2010. Information contained herein is general in nature and is intended to provide guidance to bookkeepers in providing bookkeeping services for their clients. It is not intended to be taken as a substitute for you or your clients seeking professional advice in relation to their own specific circumstances.