IRAS e-Tax Guide

GST: Guide For Charities and Non-profit Organisations

(Third Edition)

INLAND REVENUE
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1 Aim

1.1 This e-Tax Guide[1] explains:

(a) The application of GST on the activities carried out by charities and non-profit organisations; and

(b) The distinction between business and non-business activities, the types of transactions for which GST is chargeable and the rules for claiming GST incurred on expenses.

2 At a glance

2.1 A GST-registered charity or non-profit organisation (taxable person) may undertake various activities, some of which are business and some may be non-business in nature. A taxable person is required to charge and account for GST (output tax) on his taxable supplies. He is entitled to claim the GST incurred on his expenses (input tax) for making taxable supplies in the course his business. He is however unable to claim the GST incurred in respect of his non-business activities.

3 Background

3.1 Charities and non-profit organisations typically engage in a variety of activities. You need to know which activities are business activities that make taxable supplies and which are not. The non-business element usually exists in activities which are in the public domain and are philanthropic, religious, political or patriotic in nature.

3.2 This distinction is necessary because if the annual value of your taxable supplies exceeds or is expected to exceed S$1 million, you are required to register for GST. You need to account for GST (output tax) on your taxable supplies and are able to claim the GST incurred (input tax) to make your taxable supplies.

3.3 You may have activities for which you charge nominal or subsidised fees. They are charged at nominal or subsidised rates because of non-business reasons. Such activities have both business and non-business elements. The funding for the non-business elements often comes from outright donations and grants.

3.4 For example, if you charge a nominal fee for a certain public event you are organising for a philanthropic purpose. The part of the fee charged has a business element, while the subsidised part of the fees not borne by the customers is non-business in nature.

3.5 Free activities that you carry out for reasons other than a commercial one are non-business activities. They do not attract GST because no supply is

[1] This e-Tax Guide replaces the IRAS' e-Tax Guide "GST: Guide For Charities and Non-profit Organisations" published on 26 Mar 2015.

made. Examples include the provision of free medical services and free talks that benefit the public or a segment of the public and fund raising activities to solicit outright donations from the public for non-business causes.

4 GST registration

4.1 You are required to register for GST if the annual value of your taxable supplies exceeds or is expected to exceed S$1 million, even though you are involved substantially in non-business activities and the taxable activities may be incidental to your core objects.

4.2 If you carry out your activities under different arms within the same organisation, you should combine the taxable supplies from all these activities to arrive at the annual value of your taxable supplies. For example, you are registered as a religious organisation (say under the Societies Act) and hold religious classes for which attendees are charged a fee. At the same time, you operate a childcare facility and nursing home at different locations. You should take into account the value of all your taxable supplies, i.e. fees charged for the religious classes, the childcare facility, the nursing home services, etc to determine if you are required to register for GST.

4.3 To determine when you need to register for GST and how to apply for GST registration, please refer to the e-Tax Guide “Do I Need to Register?” published on IRAS website at www.iras.gov.sg.

5 Types of supplies

5.1 As a GST-registered charity or non-profit organisation, other than taxable supplies, you may also make exempt supplies.

5.2 Generally, the sale of goods (including your fixed assets) and provision of services for a consideration are taxable supplies, which may be standard-rated supplies (i.e. subject to GST at 7%) or zero-rated supplies[2] (i.e. subject to GST at 0%).

5.3 The following are examples of consideration received for the provision of taxable supplies:

- School fees, training/course fees;
- Programme fees (e.g. for counselling programme);
- Kidney dialysis fees;
- Day-care facility fees;
- Rental income from the letting of non-residential properties;
- Proceeds from the sale of donated goods;
- Proceeds from the sale of non-residential properties and fixed assets.

[2] Taxable supplies can be zero-rated if they are sale of goods exported by you or provision of international services. Please refer to IRAS website (www.iras.gov.sg) for more details.

5.4 The following are examples of consideration received for the provision of exempt supplies[3]:

- Interest received from bank deposits;
- Proceeds from sales of shares, bonds and unit trusts;
- Rental income from the letting of residential properties[4];
- Proceeds from the sale of residential properties.

6 Grants, donations, sponsorships and fund raising

6.1 As a charity or a non-profit organisation, you may receive funding in the form of grants, donations and sponsorships. You may also organise fund raising events to raise funds. To ascertain if you need to account for GST on such monies received, the key determinant is whether you are providing any benefits to the giver in return for the monies received.

6.2 If you are providing some benefits of tangible value to the giver, the monies received by you form a consideration for the supplies you made (benefits given) to the giver. You need to account for output tax on the monies received, at the tax fraction of the prevailing tax rate (i.e. 7/107 x monies received). If you are not providing any benefits to the giver, the monies received do not attract GST.

6.3 Grants

6.3.1 Grants may be in the form of outright payments given freely with no benefits provided in return by you (the recipient) to the grantor. Such grants fall outside the scope of GST as you are not providing any goods or services to the grantor in return for the grant. Such grants may be received from government agencies, charitable or non-profit organisations, the business community, etc.

6.3.2 If you receive "grants" in return for providing benefits directly to the grantor in the form of goods or services, you have to account GST (output tax) at 7/107 of the grant amount. For example, you receive a "grant" to design a special wheelchair and allow the grantor to patent that design. In this case, the "grant" is a consideration received by you for the making of a taxable supply to the grantor.

6.4 Donations

6.4.1 Pure outright cash donations received fall outside the scope of GST. Cash donations or voluntary contributions of money from the public where the donor receives negligible or no tangible benefits (e.g. a flag or similar emblem) do not attract GST.

[3] Exempt supplies are provision of financial services, sale and lease of residential land/property and supplies of investment previous metals. Please refer to IRAS website for more details.
[4] The portion of income relating to rental of furniture is still taxable.

6.4.2 Donations in-kind, for example gift vouchers or gift of goods, received by you where the giver does not receive anything in return from you are outright donations that similarly do not attract GST.

6.4.3 If the donors are entitled to some form of benefits (e.g. chances to win in lucky draws when making contributions towards the charity event), the sums received are subject to GST. The ticket sales of lotteries and donation/lucky draws attract GST as the ticket holder receives a chance of winning in return for the purchase of ticket. You have to account for GST at 7/107 on the total gross takings received less cash payouts to winners[5]. If the payouts are not in cash but in the form of goods or services, output tax has to be accounted at 7/107 on the total gross takings received (i.e. the gross takings are considered to be inclusive of GST).

6.5 Sponsorship

6.5.1 Sponsorship refers to the support, either financial or in form of goods and services, given by businesses or members of public. Sponsorship received in the form of monetary or non-monetary support (e.g. goods and services) will not attract GST if the sponsor:

- provides the support voluntarily; and
- does not receive any tangible benefits in return.

This is so even if you provide a mere acknowledgement[6] of the sponsor's contribution in the programme/booklet/banner or give a small token of appreciation.

6.5.2 If the sponsor's contribution is made on certain conditions, based on written or verbal agreements, and these conditions confer benefits on the sponsor (e.g. the sponsor's products are advertised or promoted), such benefits constitute taxable supplies that you make. Examples of such benefits include:

- naming of the event after the sponsor;
- displaying the sponsor's name on shirts worn by a team;
- advertising the sponsor's products/services in the programme booklet;
- providing free use of event facilities to the sponsor.

6.5.3 In such cases, you have to account for output tax based on the market value of the benefits conferred. If the GST-inclusive market value of the benefits is less than the total sum sponsored, the difference represents outright donations which does not attract GST.

6.5.4 If you are unable to determine the market value of the benefits conferred, you have to account for output tax at 7% of total value of goods and services sponsored, or 7/107 of total cash sponsored.

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[5] Special rules to determine the consideration and value of betting and gaming transactions are stated in Regulations 91 and 91A of the GST (General) Regulations.

[6] The acknowledgement in the programme/booklet/banner must not amount to advertisement.

6.6 Fund raising

6.6.1 You have to account for GST on the gross proceeds from fund raising events if you provide any benefits or rewards in return for the monies received.

6.6.2 The GST treatment on various fund raising activities are as follows:

(a) Charity TV shows for phone-in donations

- When you hold a charity TV show to solicit donations where the TV show does not result in prizes or rewards being given to the donors, the monies received will not be subject to GST.
- You may hold a TV show with lucky draws/rewards on TV media where the public can telephone or send SMS messages to make contributions. Such contributions for a chance to win prizes (in cash or in kind) are not outright donations and are subject to GST. You will have to account for GST at 7/107 on the gross contributions received less cash paid to the winners.

(b) Charity dinners, charity concerts / shows, charity golf tournaments

- When registered charities[7] and institutions of a public character (IPCs) hold charity dinners, charity concerts/shows or charity golf tournaments to solicit donations, a concession is given to treat the benefits given for donations (i.e. the tickets to attend the events) as having no commercial value. Therefore, the donations received from these events are deemed as outright donations not subject to GST. No GST needs to be accounted for by the recipient on such donations. Please refer to IRAS Circular ”Tax Treatment On Donations With Benefits”.

- If you are not a registered charity or IPC, you cannot apply the above concessionary tax treatment. You will have to charge and account for GST on the value of charity dinners, charity concerts/shows or charity golf tournaments. The excess amount (i.e. ticket price for the event less value of charity dinners, charity concerts/shows or charity golf tournaments) will be treated as donation. You do not have to account for output tax on the donation.

(c) Charity auction sale of goods or artefacts

- When a charity or IPC holds a charity auction sale of goods or artefacts, the final auctioned price is usually above the market price of the auctioned item. GST is accounted at 7/107 on the GST-inclusive market value of the auctioned item. The excess of

[7] These are organisations registered with the Commissioner of Charities as charities under the Charities Act.

the gross auction proceeds over the GST-inclusive market value represents donations not subject to GST.

- If the goods or artefacts are donated to a charity, the charity needs to find out the market value of the auctioned item (i.e. based on selling price of similar item) to derive the amount of pure donation arising from the auction. In the event that the charity cannot determine the market value of the auctioned item, GST needs to be accounted for on the final auctioned price at 7/107.
- If the goods or artefacts have been purchased at arms length price, you can use the purchase price as the equivalent market value. However, if the items are not recent purchases and the purchase price is not reflective of the current market value, then you will need to ascertain the equivalent market value. If the goods or artefacts are purchased at a price much lower than its market value, GST is accountable on the market value. For example, the market price of the good was $100 but was sold to you at $40 as it was for fund raising purpose. In the auction, it was sold for $250. In this case, the amount to be treated as pure donation not subject to GST would be $150. You would have to account for GST at 7/107 on the GST inclusive market price of $100.

7 Rules for claiming input tax

7.1 The following are the basic rules in claiming input tax[8]:

a) Input tax can be claimed in full if it is incurred for business purposes to make wholly taxable supplies. The input tax claims have to be supported by tax invoices or import payment permits in your name. The amount of input tax is the actual GST amount shown on the suppliers' tax invoices or import payment permits.

b) Input tax incurred for making exempt supplies cannot be claimed.

c) Input tax incurred for carrying out wholly non-business activities (e.g. free activities) cannot be claimed.

d) Input tax incurred for carrying out subsidised activities (which entails partly business and partly non-business elements) cannot be claimed in full. You can only claim the portion of input tax incurred for business purpose to make taxable supplies.

7.2 Generally, input tax incurred for exempt supplies[9] cannot be claimed. There are however exceptions when exempt input tax can be claimed:

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[8] This will exclude GST incurred on expenses that are specifically disallowed under Regulations 26 and 27 of the GST (General) Regulations, such as club subscription fees, medical expenses and medical insurance premiums, family benefits, motorcar-related expenses, etc. Please refer to IRAS website for more details on the disallowed claims.

[9] Examples of exempt input tax include those incurred on purchase or sale of shares, purchase or sale or lease of residential properties.

(a) Input tax for exempt supplies listed under Regulation 33[10] of the GST (General) Regulations.

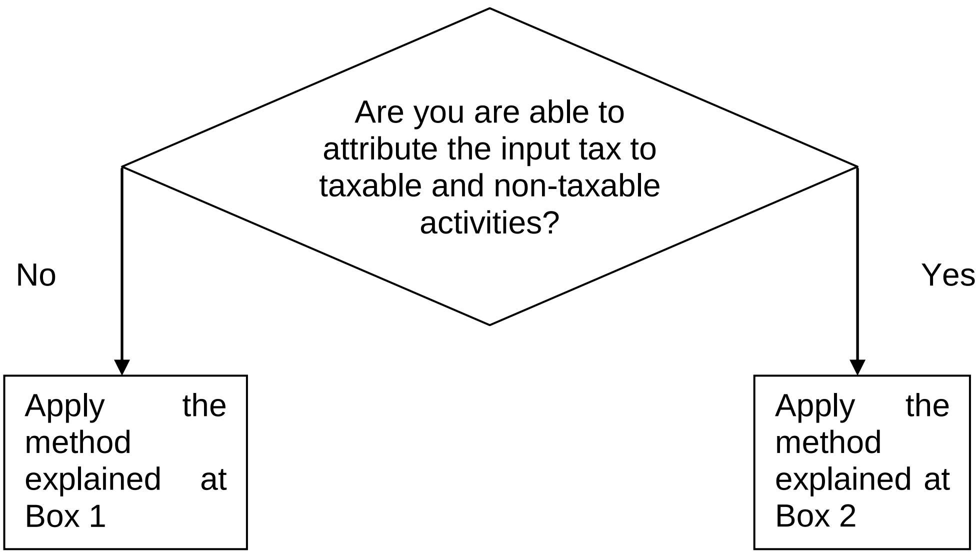
(b) Under the De minimis rule[11], the total value of exempt supplies in any accounting period of the return does not exceed:
- $40,000 per month on average, and
- 5% of the value of total supplies (i.e. standard-rated, zero-rated and exempt).

8 Input tax apportionment for organisations having business and non-business activities

8.1 To comply with the input tax rules, you have to identify and attribute the GST incurred to these categories of activities:
- Wholly taxable activities (e.g. fund raising activities yielding benefits to the giver and other business activities that generate taxable supplies);
- Wholly non-business activities (e.g. provision of free services);
- Exempt activities; and
- Subsidised activities that are partly for the making of taxable supplies and partly for non-business purposes.

8.2 If you are substantially involved in non-business activites comprising a mixture of free and subsidised activities, you may face difficulties in attributing and apportioning the input tax according to the various activities mentioned at paragraph 8.1. As an administrative concession, a simpler method of apportionment for each accounting period of the GST return is allowed. Please refer to the flow chart at Figure 1 for the methods of apportionment.

Figure 1 – Input tax Apportionment



[10] These exempt supplies include interest from bank deposits, foreign exchange gain/loss etc. Please refer to e-Tax Guide on Partially Exempt Traders and Input Tax Recovery.
[11] The De Minimis Rule is specified in Regulation 28 of the GST (General) Regulations.

Box 1

1. All the input tax claims (excluding exempt input tax and disallowed input tax under Regulations 26 & 27) have to be apportioned using the apportionment formula:

   A x (B + C) / (B + D + E) where

A	Total input tax [(excluding disallowed exempt input tax (when De Minimis Rule is not met) and Regulations 26 & 27 input tax)]
B	Taxable Supplies
C	Regulation 33 Exempt supplies
D	Non-business receipts (e.g. grants, donations, sponsorships) that finance the operating activities. You can exclude the funding for major capital projects (e.g. capital grants or donations reflected in balance sheet).
E	Exempt supplies[12]
Note : The figures above are those applicable for each accounting period of the GST return.	

2. If you are unable to determine the non-business receipts for **each accounting period**, you are allowed to claim the input tax using a **provisional rate.** This rate refers to the actual yearly input tax recovery rate for the **preceding financial year**. The rate is computed as follows:

   $(B^y + C^y) / (B^y + D^y + E^y)$ where

B^y	Yearly Taxable Supplies
C^y	Yearly Regulation 33 Exempt supplies
D^y	Yearly Non-business receipts to finance operating activities (extracted from financial statement). [You should include operating grants, donations and other non-business receipts reflected in your profit and loss account. You can exclude capital grants amortised, capital grants and donations (reflected in balance sheet) used for funding capital project]
E^y	Yearly Exempt supplies

   At the end of each financial year, you will need to compute the actual input tax recovery rate for that year using actual figures. You will then compare the actual amount of input tax claimable with the input tax provisionally claimed for that financial year . The difference in input tax over-claimed or under-claimed must be adjusted in the next GST F5 return of the new financial year, following the finalisation of the financial statements. Please refer to Appendix 2 for an illustration of computing the allowable input tax claim.

[12] If you engage fund managers to carry out investment activites and did not claim the direct input tax attributable to such exempt activities (e.g. fund manager's fees), you need not include the exempt supplies of your investment activities in the numerator and denominator of the formula.

Box 2

1. Input tax attributable to wholly[13] taxable activities is claimable in full.

   The remaining input tax (excluding input tax disallowed under Regulations 26 & 27 and input tax relating to exempt supplies) for subsidised and free activities has to be apportioned as follows:

   A1 x (B1 + C1) / (B1 + D1 + E1) where

A1	Remaining total input tax for subsidised and free activities [(excluding disallowed exempt input tax (when De Minimis Rule is not met) and Regulations 26 & 27 input tax)]
B1	Taxable Supplies for subsidised activities
C1	Regulation 33 Exempt supplies
D1	Non-business receipts (e.g. grants, donations, sponsorships) that finance the operating activities. You can exclude the funding for major capital projects (e.g. capital grants or donations reflected in balance sheet).
E1	Exempt supplies[14]
Note : The figures above are those applicable for each accounting period of the GST return.	

2. If you are unable to determine the non-business receipts for **each accounting period**, you are allowed to claim the input tax for subsidised and free activities using a **provisional rate**. This rate refers to the actual yearly input tax recovery rate for the **preceding financial year**. The rate is computed as follows:

   $(B1^y + C1^y) / (B1^y + D1^y + E1^y)$ where

$B1^y$	Yearly Taxable Supplies for subsidised activities
$C1^y$	Yearly Regulation 33 Exempt supplies
$D1^y$	Yearly Non-buisness receipts (extracted from financial statement) [You should include operating grants, donations and other non-business receipts reflected in your profit and loss account. You can exclude capital grants amortised, capital grants and donations (reflected in balance sheet) used for funding capital project]
$E1^y$	Yearly Exempt supplies

   At the end of each financial year, you will need to compute the actual input tax recovery rate for that year using actual figures. You will then compare the actual amount of input tax claimable with the input tax provisionally claimed for that financial year . The difference in input tax over-claimed or under-claimed must be adjusted in the next GST F5 return of the new financial year, following the finalisation of the financial statements. Please refer to Appendix 2 for an illustration of computing the allowable input tax claim.

[13] For example, you hold a charity show with lucky draws on TV media. The TV media and telecommunication service providers charge you a fee for their services in connection with the charity show. You can claim the input tax incurred for the taxable fund raising activity as you will be accounting for output tax on the entire proceeds received.

[14] If you engage fund managers to carry out investment activites and did not claim the direct input tax attributable to such exempt activities (e.g. fund manager's fees), you need not include the exempt supplies of your investment activities in the numerator and denominator of the formula.

8.3 Input tax apportionment applicable only to Charities[15]

8.3.1 If you are a Charity, you can choose to use an annual "fixed rate" to compute the claimable input tax for all your GST returns that fall in a financial year. This "fixed rate" is the actual yearly input tax recovery rate of the preceding financial year.

8.3.2 To ease your compliance, at the end of the current financial year, you do not need to make any adjustment to the total input tax claimed in the year. In the next financial year, you will use the the actual rate of the current year as the "fixed rate" for all the GST returns that fall in the next financial year.

8.3.3 You can apply the "fixed rate" method on input tax claims for prescribed accounting periods ended on or after 30 June 2015. Once you choose to apply the "fixed rate" method, you are not allowed to opt out of this method.

8.3.4 If you have used the provisional rate to claim the input tax for the accounting periods prior to the use of fixed rate, you are still required to make the tax adjustment as shown in Boxes 1 and 2 of paragraph 8.2.

[Note: If you are a Charity which has been given a a special input tax apportionment formula that is not listed in this guide, this fixed rate method is not applicable to you.]

8.4 Input tax incurred on big major projects

8.4.1 If you incur input tax on major capital projects (e.g. constructing a new building) that will be used for both business and non-business activities, you need to determine the proportion of the capital project that will be used for the making of taxable activities. You can use a direct method for determination (for example by the actual floor area to be used for taxable activities following construction, activity base costing, time utilisation, subsidy rate, etc) or a reasonable proxy. You can only claim the portion of input tax applicable to taxable activities for business purpose.

8.4.2 Example 1

You are constructing a new building. 40% of the building will be rented out commercially while 60% of the building will be used for carrying out subsidised tuition. You can claim 40% of the input tax incurred on construction cost in full as it is for the making of wholly taxable supplies. As the remaining 60% of input tax on construction cost will only be partly for the making of taxable supplies (i.e. the portion of the tuition fees charged to students), only a portion of this input tax can be claimed. If you are unable to apportion this input tax between your business and non-business activities, you can use the same proportion applicable to your operating activities (based on the simpler apportionment methods stated under

[15] This fixed rate method is not applicable to non-profit organisations.

paragraph 8.3.1 or 8.4.2) to determine the amount claimable out of the remaining 60% of the construction cost.

8.4.3 Example 2

To expand your provision of free and subsidised activities, you construct a new building. Based on the apportionment formula for your operating activities (determined under paragraph 8.3.1 or 8.4.2) you can claim, say 48% of the input tax for your operating activities. This is in contrast to example 1 where you are unable to directly attribute the proportion of capital project that is used for making taxable supplies. In this example, you can use the same rate of 48% to claim the input tax for the construction cost.

9 Property held by trustee

9.1 Unincorporated bodies (e.g. society) are generally unable to hold properties in their own name due to the lack of legal capacity.

9.2 If you are an unincorporated body, any property that you acquire will generally be held by a legal entity that acts as a bare trustee. Such a bare trustee can be an individual or a company appointed or set up solely for the purpose of holding the property on your behalf[16] with no interest in it.

9.3 Input tax

9.3.1 You can claim input tax for the GST incurred on the property acquired through your bare trustee, subject to the qualifying conditions. The amount of input tax that is claimable depends on the use of the property. If the property is fully used for the making of taxable supplies (e.g. charging rental income at commercial rate), input tax incurred on the purchase of the property can be claimed in full. If the property is used as your premises where you have both business and non-business activities, you have to apply the input tax apportionment rule to determine the amount of input tax claimable[17].

9.3.2 To support your input tax claim, you have to maintain the following:

- Tax invoice addressed to the bare trustee; and
- Documents (e.g. trust deed) or records showing that the purchase is made by the bare trustee on your behalf.

[16] The bare trustee has no duties to perform on the property other than to act on your instructions.
[17] If the input tax claim on the property results in a GST refund, the refund will be made to you (i.e. to the bank account indicated by you or by cheque).

9.4 Output tax

9.4.1 You have to account for output tax on supplies of properties (sale or rental) made on your behalf by the bare trustee. If input tax on the property acquired has been allowed to you previously, you will have to account for deemed output tax when such properties are:

- given away for free;
- put to personal or non-business use; or
- held as at the last day of GST registration.

10 Contact information

For enquiries on this e-Tax guide, please contact :

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11 Updates and amendments

	Date of amendment	Amendments made
1	12 Jun 2015	• Revised paragraph 8.2 • Inserted paragraph 8.3 to allow charities to use an annual “fixed rate” on input tax claims for accounting periods ended on or after 30 June 2015

Appendix 1

Table on classification of supply for various income/receipts

INCOME / RECEIPTS	CLASSIFICATION OF SUPPLY
Charity donation drives with charity dinners, charity concerts/shows, charity golf tournaments	Out-of-scope (concessionary tax treatment)
Proceeds from charity auction of goods	Standard-rated supply on the market value of the auctioned goods
Subscription fees	Standard-rated supply
Course fees, school fees, programme fees	Standard-rated supply
Day care fees	Standard-rated supply
Advertising fees in brochures, programmes, magazines	Standard-rated supply
Sale/ lease of non-residential properties	Standard-rated supply
Sale/ lease of residential properties	Exempt supply
Interest income	Exempt supply
Sale of lottery, big sweep, lucky draw tickets – Donor wins a chance	Standard-rated supply Output tax accounted at 7/107 on the gross takings less cash payouts to winners.
Cash Sponsorship (given on condition to confer benefits) • Can determine the market value of the benefits -- • Cannot determine market value of the benefits	Standard-rated supply • Account output tax at 7/107 on GST-inclusive market value of the benefits. • Amount of cash sponsored is greater than GST-inclusive market value of the benefits, difference = pure donations with no GST -- • Account output tax at 7/107 of the total sum of cash sponsored
Cash donations (with no tangible benefits to donor)	Out-of-scope
Dividend income	Out-of-scope
Grants (with no benefits to grantor)	Out-of-scope
Grants (with benefits to grantor)	Standard-rated supply

Appendix 2

<u>Illustration of the simplified approach in claiming provisional input tax and making adjustments after the financial year end</u>

If your organisation is carrying out business and non-business activities, this appendix illustrates the simplified approach to claim input tax provisionally, and how to adjust the provisional input tax claims after the end of the financial year.

In this illustration, your financial year-end is 31 March. You wish to claim input tax in your quarterly GST returns for the financial year ended 31 Mar 2014 (i.e. 1 April 2013 – 31 March 2014). You can do so provisionally by using the <u>preceding year's input tax recovery rate for the full financial year</u>, i.e. financial year ended 31 Mar 2013.

Step 1:
You need to calculate the actual input tax recovery rate for the preceding financial year ended 31 Mar 2013.

Based on the annual financial statements for year ended 31/3/2013 and the GST returns declared for periods covering 1/4/2012 to 31/3/2013, the following actual figures were recorded (assume you adopt the formula under Box 1 of paragraph 8.2).

Year 1/4/2012 – 31/3/2013

Total Taxable Supplies	=	$4,000,000
Total Non-Business Receipts (per profit & loss statement)		
- Grants (gross amount)	=	$4,000,000
- Donations (gross amount)	=	<u>$1,200,000</u>
		<u>$5,200,000</u>
- Regulation 33 Exempt supplies	=	$ 100,000
- Non Regulation 33 Exempt Supplies	=	$ 20,000
- Total Exempt Supplies	=	$ 120,000

Calculate input tax recovery rate for the financial year ended 31 Mar 2013.

$$\text{Actual yearly input tax recovery rate} = \frac{\text{Yearly taxable supplies} + \text{Regulation 33 exempt supplies}}{\text{Yearly taxable supplies} + \text{Yearly non-business receipts} + \text{Total Exempt supplies}}$$

$$= \frac{4{,}000{,}000 + 100{,}000}{4{,}000{,}000 + 5{,}200{,}000 + 120{,}000}$$

$$= 43.99\%$$

If you have adopted the method under Box 2 of paragraph 8.2, you should apply the formula under Box 2 accordingly.

Step 2:
In your GST returns covering the period 1 April 2013 – 31 March 2014, you can provisionally claim input tax (excluding exempt input tax and disallowed input tax under Regulations 26 & 27) based on 43.99%.

Quarterly Filing of GST Return	Actual input tax incurred ($)	Provisional input tax recovery rate ($)	Provisional claim of input tax ($)
1/4/2013 – 30/6/2013	75,000	43.99%	32,993
1/7/2013 – 30/9/2013	125,000	43.99%	54,988
1/10/2013 – 31/12/2013	85,000	43.99%	37,392
1/01/2014 – 31/03/2014	100,000	43.99%	43,990
Total:	**385,000**		**169,363**

Total input tax provisionally claimed in financial year ended 31 Mar 2014 is $169,363.

Step 3:
After the end of the financial year ended 31 Mar 2014, once you have finalised your financial statements for year ended 31 Mar 2014, you need to calculate the actual input tax recovery rate for financial year ended 31 Mar 2014 using the apportionment formula.

You will compare the actual amount of input tax claimable with the input tax provisionally claimed in your GST returns for the financial year ended 31 Mar 2014 to determine the amount of input tax over-claimed or under-claimed. The amount of input tax over-claimed or under-claimed needs to be adjusted in the next GST F5 return (for the accounting period ended 30 Jun 2014). If you have already submitted the said F5 return, you are required to file the GST F7 form for this accounting period to make the adjustment.

<u>Year 1/4/2013 – 31/03/2014</u>
Applying the apportionment formula (in step 1) using actual non-business receipts (per profit & loss in the financial statements) and total taxable and exempt supplies for the year, the actual input tax recovery rate for financial year 2014 is <u>38.50**%.**</u>

Amount of input tax claimable for the financial year ended 31 Mar 2014:
= Actual input tax incurred X Actual input tax recovery rate
= $ 385,000 (per step 2) X 38.50%
= $ 148,225

<u>Compare actual input tax claimable with input tax provisionally claimed</u>
If actual input tax claimable < input tax provisionally claimed → over-claim of input tax
If actual input tax claimable > input tax provisionally claimed → under-claim of input tax

Input tax provisionally claimed (per step 2) – Actual input tax claimable
= $ 169,363 - $148,225
= $ 21,138

Thus there is an over-claim of input tax of $21,138 for financial year ended 31 Mar 2014.