

Leaving the GST system

What you need to do to finalise your GST obligations.



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ABOUT THIS GUIDE

This guide explains what you must do if you close, sell or change the structure of your business, for example if you change your business from a partnership to a company.

 This guide does not apply to the cancellation of a GST branch's registration.

TERMS WE USE

When we say:

- **GST credit**, we are referring to the GST term **input tax credit**
- **business**, we are referring to the GST term **enterprise**
- **sales**, we are referring to the GST term **supplies**
- **purchases**, we are referring to the GST term **acquisitions**
- **real property**, this includes:
 - any interest in or right over land
 - a personal right to call for or be granted any interest in or right over land, or
 - a licence to occupy land or any other contractual right exercisable over or in relation to land.

WHEN SHOULD YOU CANCEL YOUR GST REGISTRATION?

You must ask us to cancel your GST registration if you are no longer carrying on an enterprise. This may apply where your business has:

- closed down
- been sold
- changed structure, for example, changed from a partnership to a company.

⚠ You must cancel your GST registration within 21 days if any of these situations apply to you. If you fail to cancel you may be liable for a penalty.

You can ask us to cancel your GST registration if your GST turnover falls below the GST turnover threshold for compulsory registration. This threshold is \$75,000 and \$150,000 for non-profit bodies.

Even if you are below the threshold, you cannot cancel your GST registration if you:

- are a taxi driver
- represent an individual who is bankrupt that is registered (or required to be registered) for GST
- are a business that is in liquidation that is registered (or required to be registered) for GST
- are an Australian resident who acts as an agent for a non-resident that is registered (or required to be registered) for GST.

➤ For more information on calculating your GST turnover, refer to 'Working out your GST turnover' in *GST for small business* (NAT 3014).

WILL YOUR AUSTRALIAN BUSINESS NUMBER (ABN) BE AFFECTED?

You must also ask us to cancel your ABN registration if your business has:

- closed down
- been sold
- changed structure, for example, changed from a partnership to a company.

However, if you are a company but no longer carry on a business, you can choose to keep your ABN registration but you must cancel your GST registration.

➤ If we decide that you are not conducting a business, we may cancel your GST or ABN registration even if you have not applied for cancellation. For more information see 'After cancelling your GST registration' on page 6.

WHAT ELSE MAY BE AFFECTED?

⚠ Cancelling your ABN cancels all other roles including GST.

When you cancel your GST registration, your fuel tax credit, luxury car tax and wine equalisation tax registrations are also cancelled, even if you keep your ABN.

You will need to keep lodging activity statements if you:

- are registered for pay as you go withholding (PAYGW)
- are registered for pay as you go instalments (PAYGI)
- have fringe benefits tax obligations.

If you need to cancel other obligations along with your GST registration, phone 13 28 66 to find out what to do.

02

WHAT DATE CAN YOU CANCEL YOUR GST REGISTRATION?

You can choose the date you would like your GST registration to be cancelled. We will generally cancel your GST registration from the date that you choose if the date is on or after 1 July 2000.

You cannot:

- choose a cancellation date and then continue to operate on a **GST registered basis** after that date
- cancel your registration retrospectively if you still operated on a GST registered basis after that date.

You operate on a GST registered basis if you:

- tell other businesses you are registered for GST
- issue tax invoices or adjustment notes
- claim GST credits, special transitional credits or indirect transitional credits.

⚠ We may decide to cancel your registration on an earlier or later date than the one you request, or we may refuse to cancel your registration if you are still required to be registered under GST law.

➡ If your application to cancel your GST registration is not approved or if we cancel your registration on a date other than the date you specified and you are not satisfied with our decision, you may lodge an objection. For more information about objections and other ways of seeking reviews of our decisions, refer to *Correct a mistake or dispute a decision* (NAT 73730).

Your GST registration, ABN and any other roles or registration, can be cancelled either at the same time, or separately, by:

- phoning **13 28 66** – you must have your last activity statement or notice of assessment available to help satisfy the proof of identify requirements
- completing the *Application to cancel registration* (NAT 2955) form. You can obtain a copy of the form:
 - through online ordering at www.ato.gov.au/onlineordering
 - by phoning **13 28 66** between 8.00am and 6.00pm, Monday to Friday.


You should post your completed application form to:

Australian Taxation Office, Registrations
VIC/SA/WA/TAS
PO Box 3373
Albury NSW 2640

Australian Taxation Office, Registrations
NSW/QLD/NT/ACT
PO Box 3373
Penrith NSW 2740

In each case you will need to provide:

- your ABN
- your current contact details and postal address
- the reason for your cancellation
- the date you want the cancellation to take effect.

 When you apply to cancel your GST registration you need to make a declaration advising that you have stopped operating on a GST registered basis from the cancellation date.

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AFTER CANCELLING YOUR GST REGISTRATION

COMPLETING YOUR ACTIVITY STATEMENT WHEN YOU CANCEL YOUR GST REGISTRATION

You must complete an activity statement for the tax period your registration cancellation 'date of effect' occurs. You must report all of the following information:

- all the sales, purchases and importations made in your final tax period including the sale of the business
- any adjustment for assets held after cancellation (see 'Adjustments for assets you hold after cancellation' on this page)
- any other adjustments discussed in *Making an adjustment on your activity statement* (NAT 11035).

If you operate on a cash basis, you will need to record all the sales and purchases that you still need to attribute to a previous tax period.

If you sell your business and any of the assets that are part of the business, the sale of assets must be recorded on your final activity statement.

You need to lodge any outstanding activity statements and account for any outstanding GST amounts.

If you still have PAYGW, PAYGI or fringe benefits tax obligations, you must continue to report these obligations to us on an instalment activity statement.

➔ For more information on adjustments, refer to *Making an adjustment on your activity statement* (NAT 11035).

ADJUSTMENTS FOR ASSETS YOU HOLD AFTER CANCELLATION

Do I need to make an adjustment?

When you purchased an asset, you may have been entitled to or you may have claimed some or all of the GST credits on an activity statement.

Generally business assets are sold when your business is sold. However, in some cases business assets can be kept. If you still have business assets on hand for which you claimed GST credits for, you may need to repay some of those GST credits when you cancel your GST registration. For example, you used a car in your business but you keep it after you cancel your GST registration.

⚠ Where you held **no** assets immediately before your GST registration cancellation took effect, there is no need to read any further in this guide.

If you held any assets, you must continue.

You do not need to make any adjustments for assets you held if either:

- the registration cancellation relates to a deceased estate (see 'Deceased estates' below)
- the last adjustment period applying to the asset ended before your cancellation date.

If these exceptions do not apply, then you must:

- make a calculation for each asset that requires an adjustment
- include the amount on your activity statement.

Deceased estates

You do not have to make adjustments if the registration cancellation relates to a deceased estate and either:

- the cancellation is due to the death of a sole trader and the executor or trustee of the estate is registered (or required to be registered) for GST and immediately continue the deceased's business
- the cancellation is due to:
 - the executor or trustee of a deceased estate does not carry on the deceased's business
 - one or more of the beneficiaries immediately continues that business, and
 - those beneficiaries are registered or required to be registered for GST.

Adjustment periods

What is an adjustment period?

Adjustment periods are generally the June tax period.

The purpose of having adjustment periods is to review the business use of your assets over time. If there is a change in business use, you need to make an adjustment to ensure that you claimed the right amount of GST credits.

- For more information about adjustment periods, refer to:
- *Making an adjustment on your activity statement* (NAT 11035)
 - GSTR 2000/24 Goods and services tax: Division 129 – making adjustments for changes in extent of creditable purpose.

Working out if the adjustment periods have expired

Each asset that you purchase or import for your business has a number of adjustment periods that apply to it.

The number of adjustment periods that apply to each asset will depend on the GST exclusive value of the purchase or importation and whether you bought or imported the asset for **business finance** or not.

Business finance relates to assets purchased or imported to make **financial supplies** and not used for private or domestic purposes. This does not include assets that you have acquired through a loan or other finance for your business. An example of making financial supplies is selling shares or making monetary loans.

If you buy or import an asset that is not used for business finance, use table A to work out your adjustment periods.

If you buy or import an asset that is used for business finance, use table B to work out your adjustment periods.

- For more information on financial supplies, refer to:
- Financial services – questions and answers
 - *GST and financial supplies – completing your activity statement* (NAT 10816).

TABLE A: If your asset does not relate to business finance

Value of purchase or importation (less GST)	Number of adjustment periods for assets that do not relate to business finance
\$5,000 or less	2
\$5,001 to \$499,999	5
\$500,000 or more	10

TABLE B: If your asset relates to business finance

Value of purchase or importation (less GST)	Number of adjustment periods for assets that do relate to business finance
\$50,000 or less	1
\$50,001 to \$499,999	5
\$500,000 or more	10

When does your adjustment period start and finish?

Your **first adjustment period** will be the first June tax period that is at least 12 months **after** the tax period in which you purchased or imported the asset.

EXAMPLE


Sophie runs a retail clothing business and is registered for GST on a monthly basis. Sophie purchased a computer on 12 September 2006 for \$4,400 and has a tax invoice for the purchase. She reported this purchase on her September 2006 activity statement and claimed GST credits.

The June 2008 tax period is the first June tax period at least 12 months after the tax period Sophie bought the computer. This means Sophie must make her first adjustment to the GST credits she has claimed on the computer in the June 2008 tax period.

In this case, Sophie is using the computer in her retail clothing business and it does not relate to business finance and so has two adjustment periods, (the June 2008 and June 2009 tax periods, see **table A** on page 7).

If Sophie cancels her GST registration after her last adjustment period (June 2009) she **will not** have an adjustment.

If Sophie cancels her GST registration before her last adjustment period (June 2009) she **will** have an adjustment.

 If the adjustment periods have expired for an asset, you do not have an adjustment.

If the adjustment periods have not expired for an asset, you will need to make the calculation for each asset that requires an adjustment.

EXAMPLE

Graham is a GST registered farmer who accounts for GST quarterly. He operates a farming business on property he originally purchased on 25 May 2000. In March 2006, Graham makes improvements to the farmland. He carries out extensive fencing of the property and constructs a dam.

The fencing cost \$22,000 (GST-inclusive) and the dam \$6,600 (GST-inclusive). Graham claimed GST credits of \$2,600 $[(\$22,000 \times 1/11\text{th}) + (\$6,600 \times 1/11\text{th})]$ on his March 2006 activity statement for the GST included in the price of the fencing and the dam.

Graham's first adjustment period for the fence and the dam is the June 2007 tax period. This is the first June tax period that is at least 12 months after the March 2006 tax period in which he purchased the fencing and dam.

As Graham uses the fencing and the dam in his farming business, they do not relate to business finance and each item was purchased for more than \$5,000 (GST-exclusive), these assets have a maximum of five adjustment periods; the June 2007, June 2008, June 2009, June 2010 and June 2011 tax periods.

In 2009 Graham decides to retire and keeps the farm with its improvements. He ceased to carry on his enterprise on 30 October 2009 and cancelled his GST registration effective the same day. Graham was required to make an adjustment to repay some of the GST credits he claimed for the fencing and the dam. This is because his last adjustment period had not ended before the cancellation of his registration took effect. Graham makes the adjustment in his concluding tax period.

Graham's concluding tax period is 1 October 2009 to 30 October 2009. The adjustment will need to be reported (together with any GST collected or paid) in his quarterly activity statement for the period ending 31 December 2009.

Adjustment calculation

To calculate an adjustment, use the following formula to give you the figure you need to report on your activity statement as GST on sales (label 1A):

$$\text{'applicable value'} \times \text{'actual application'} \times 1/11$$

Actual application is the percentage for which the asset was used for business purposes calculated from the date of purchase or importation until the date you cancelled your GST registration.

If you have always used the asset for business purposes, your business use of the asset is 100%. If you have used the asset partly for business purposes and partly for private purposes, you will need to calculate the percentage of business use of the asset on a reasonable basis.

Applicable value is the lesser of either:

- the market value of the asset (including GST) immediately before your cancellation date
- the purchase price or cost of importing the asset (including GST).

To calculate the adjustment, complete the following in the calculation worksheet below:

- In **Column 1** list all the assets which you hold immediately before cancellation for which an adjustment is required.
- In **Column 2** list the GST inclusive price of the purchase in dollars.
- In **Column 3** list the estimated current market value (including GST) as it was at the date your cancellation is effective.
- In **Column 4** list the lesser of columns 2 and 3, that is, the lesser of the purchase price and the current market value.
- In **Column 5** state the percentage the asset was used for business purposes – this is calculated by working out the business use from the date of purchase to the cancellation date. Record this as a percentage.
- If you use the **calculation worksheet method** to account for GST – complete the calculation in **Column 6**. You then add the amount at **Column 6** to box G7 on the worksheet. After completing the worksheet the adjustment will have been included in label 1A of the activity statement.
- If you use the **accounts method** to account for GST – complete the calculation in **Column 7**. The adjustment in **Column 7** needs to be added to label 1A (GST payable) on your activity statement.

You would then include this adjustment on your activity statement. This adjustment is the GST that you need to pay to us.

You may use either the accounts method or the calculation worksheet method to complete the relevant labels on your final activity statement.

➤ For more information on the calculation worksheet method and the accounts method, refer to section 3 in *Goods and services tax – completing your activity statement* (NAT 7392).

CALCULATION WORKSHEET

1	2	3	4	5	6	7
Asset	Purchase price GST inclusive (\$)	Estimated market value GST inclusive (\$)	Lesser of purchase and market value (\$)	Actual application of asset for business use (%)	<i>If you use the worksheet method – Include this amount at G7 column 4 × column 5 (\$)</i>	<i>If you use the accounts method – Include this amount at 1A column 6 × 1/11 (\$)</i>
eg Car	27,500					

EXAMPLE: Using the calculation worksheet method

Frank, a sole trader who operates a clothing store, is registered for GST on a quarterly basis. Frank cancels his GST registration which takes effect on 30 September 2009. Frank decides however to keep a car, a computer, and a filing cabinet.

The computer and filing cabinet were always used 100% in his business. Frank originally intended to use the car solely for business purposes but his log book shows actual use from the date of purchase to the cancellation date is 75% business use.

Frank bought:

- the car in August 2007 for \$27,500 (including \$2,500 GST). Frank claimed a GST credit of \$2,500 for his car in the September 2007 tax period
- the computer in October 2006 for \$3,300 (including \$300 GST). Frank claimed a GST credit of \$300 for his computer in the December 2006 tax period, and
- the filing cabinet in February 2009 for \$660 (including \$60 GST). Frank claimed a GST credit of \$60 for his filing cabinet in the March 2009 tax period.

Frank establishes that the current market value of the car is \$4,400, the filing cabinet is \$440 and the computer is \$220.

Step 1

Frank will need to consider whether an adjustment is required for the car, computer and filing cabinet as they will be held immediately before cancellation takes effect.

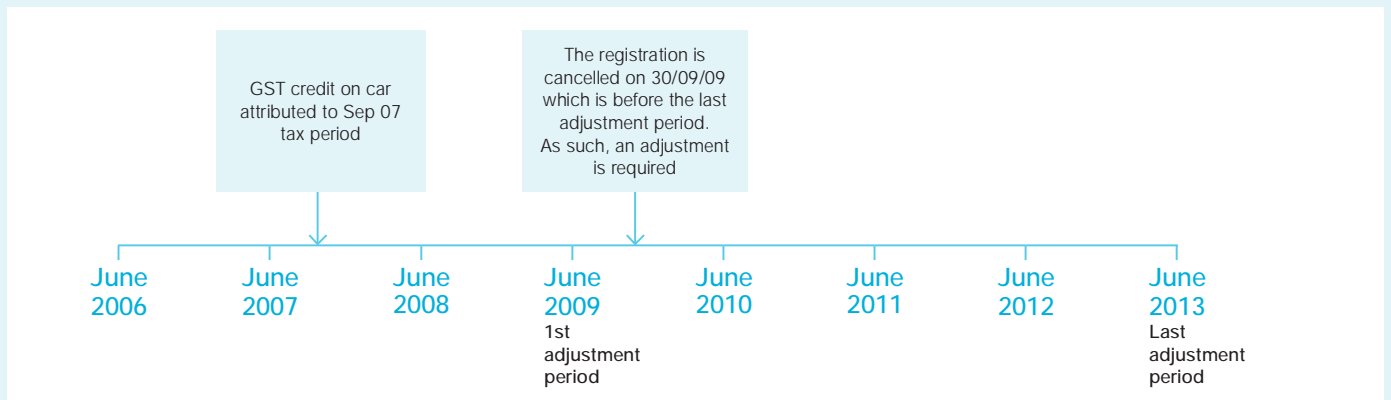
Step 2

The exceptions relating to deceased estates do not apply.

Step 3

Frank considers the exception relating to adjustment periods:

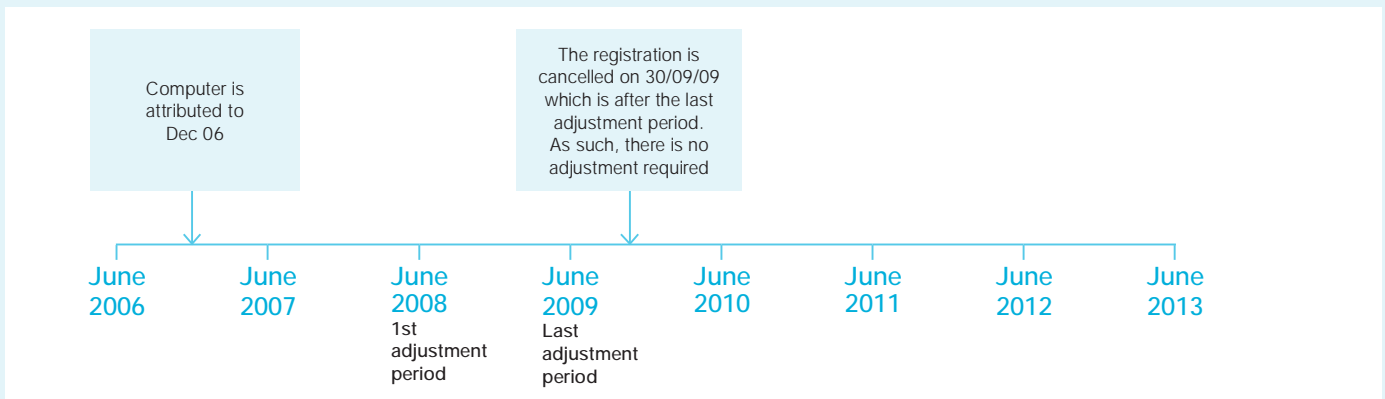
- 1 As Frank ran a clothing retail store, he has not made any of the purchases that relate to business finance. As such, Frank uses table A (on page 7) to work out the number of adjustment periods that apply to each asset.
- 2 The car has five adjustment periods based on table A. The first adjustment period is the June 2009 tax period as this is the first June tax period that is at least 12 months from the end of the tax period in which the purchase of the car was attributed. As there are five adjustment periods, the last adjustment period will be the June 2013 tax period.
- 3 As the adjustment periods for the car have not expired before Frank's cancellation takes effect, he must make an increasing adjustment.

Frank's car purchase with five adjustment periods

EXAMPLE: Using the calculation worksheet method (continued)

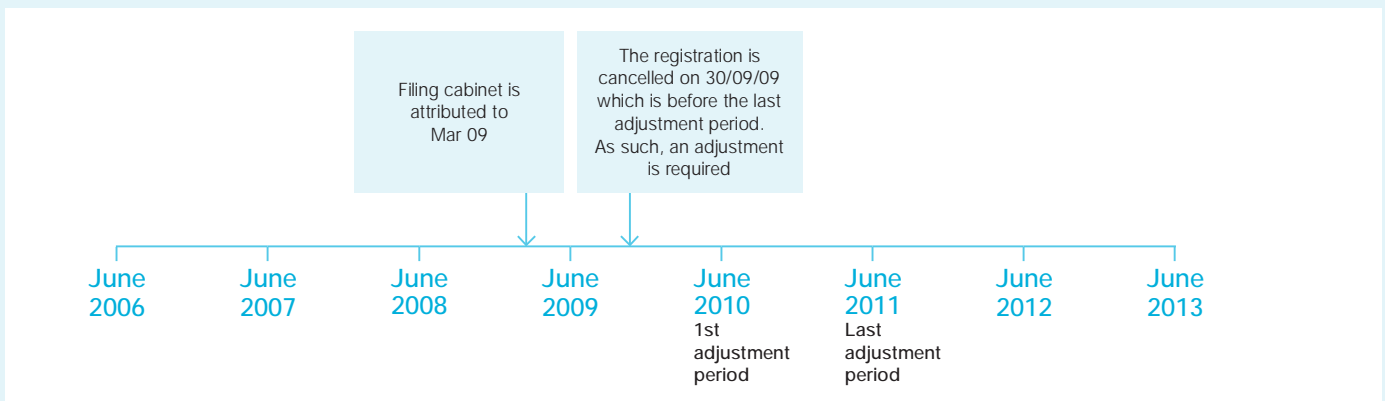
- 4 The computer has two adjustment periods based on table A. The first adjustment period is the June 2008 tax period as this is the first June tax period that is at least 12 months from the end of the tax period in which the purchase of the computer was attributed. As there are two adjustment periods, the last is the June 2009 tax period.
- 5 As the adjustment periods for the computer expired before Frank's cancellation takes effect, he does not need to make an increasing adjustment and does not need to do anything else for the computer.

Frank's computer purchase with two adjustment periods



- 6 The filing cabinet has two adjustment periods based on table A. The first adjustment period is the June 2010 tax period as this is the first June tax period that is at least 12 months from the end of the tax period in which the purchase of the filing cabinet was attributed. As there are two adjustment periods, the last one is the June 2011 tax period.
- 7 As the adjustment periods for the filing cabinet have not expired before Frank's cancellation takes effect, he must make an increasing adjustment.

Frank's filing cabinet purchase with two adjustment periods



EXAMPLE: Using the calculation worksheet method (continued)

Calculation worksheet						
1	2	3	4	5	6	7
Asset	Purchase price GST inclusive (\$)	Estimated market value GST inclusive (\$)	Lesser of purchase and market value (\$)	Actual application of asset for business use (%)	<i>If you use the worksheet method – Include this amount at G7 column 4 × column 5 (\$)</i>	<i>If you use the accounts method – Include this amount at 1A column 6 × 1/11 (\$)</i>
<i>Car</i>	<i>27,500</i>	<i>4,400</i>	<i>4,400</i>	<i>75</i>	<i>3,300</i>	<i>300</i>
<i>Filing Cabinet</i>	<i>660</i>	<i>440</i>	<i>440</i>	<i>100</i>	<i>440</i>	<i>40</i>

MORE INFORMATION

For more information, refer to:

- *Making an adjustment on your activity statement* (NAT 11035)
- *GST and annual private apportionment* (NAT 12877)
- *What you need to tell the Tax Office when your business ceases* (NAT 11108)
- *Goods and services tax – completing your activity statement* (NAT 7392).

To obtain a copy of one of our publications or for more information:

- visit our website at www.ato.gov.au
- phone us on **13 28 66**
- write to us at:
Australian Taxation Office
PO Box 3524
ALBURY NSW 2640.

If you do not speak English well and need help from us, phone the Translating and Interpreting Service on **13 14 50**.

If you are deaf, or have a hearing or speech impairment, phone us through the National Relay Service (NRS) on the numbers listed below:

- TTY users, phone **13 36 77** and ask for the ATO number you need
- Speak and Listen (speech-to-speech relay) users, phone **1300 555 727** and ask for the ATO number you need
- internet relay users, connect to the NRS on www.relayservice.com.au and ask for the ATO number you need.

