

## Introduction

If you made a GST error on an earlier activity statement, you can choose to correct that error on a later activity statement if you meet some conditions outlined below.

The benefits of correcting GST errors on a later activity statement are:

- you are not liable to any penalties or general interest charge (GIC) for any GST error you correct on a later activity statement
- it is easier to correct a GST error on a later activity statement rather than revising the earlier activity statement.

Alternatively, you can correct any GST error by **revising** the earlier activity statement that contains the error.

## Definition of a GST error

A GST error is a mistake you made in working out your GST net amount on your activity statement that would, if it was the only mistake that you made, result in you reporting or paying too much GST (credit error) or reporting or paying too little GST (debit error).

The error must relate to an amount of GST, GST credit or GST adjustment. The GST error is the amount of GST, GST credit or GST adjustment and not the gross or GST-inclusive price of the transaction.

A GST error does not include an error that relates to an amount of fuel tax credit, wine equalisation tax, or luxury car tax.

### **Example: GST error only relates to the GST, GST credit or GST adjustment**

In working out the GST net amount for the monthly reporting period ending 30 June 2016, Bronwyn inadvertently reported GST payable of \$1,000 on a taxable sale, instead of \$100. That is, the price of the taxable sale was \$1,100 (GST-inclusive). The GST error is the overpaid GST (that is, \$900), not the price of the taxable sales (that is, \$1,100).

### **Example: GST error must be quantified**

On 15 April 2015, ABC Pty Ltd discovers it has not reported the GST on sales it made for the December 2014 quarterly activity statement lodged on 21 January 2014. However, it is unable to work out the amount and decides to engage an accounting firm to review its accounts. On 18 July 2015, the accounting firm finalises the review for ABC Pty Ltd and works out the amount of the unreported GST for the December 2014 quarter was \$5,000. As the mistake has now been worked out, it is a GST error

## Types of GST errors

There are two types of GST errors you can make - a credit error or debit error.

You make a **credit error** if you make an error in working out your net GST amount that results in you reporting or paying too much GST for the reporting period. Examples of credit errors include:

- reporting a GST sale twice
- overstating the GST on sales (for example, reporting the GST on sales as \$10,800 rather than the correct amount of \$10,000)
- under-claiming a GST credit for your purchases
- omitting or understating a decreasing GST adjustment or overstating an increasing GST adjustment.

You can correct a credit error on a later activity statement that is lodged within the period of review of the earlier reporting period. The period of review starts on the day you lodge your activity statement and ends four years and one day later.

You make a **debit error** if you make an error in working out your net amount results in you reporting or paying too little GST for the reporting period. Examples of debit errors include:

- failing to include GST on a taxable sale
- understating the GST on sales (for example, reporting the GST on sales as \$1,000 rather than the correct amount of \$10,000)
- overstating GST credits (for example, claiming GST credits for a purchase twice)
- omitting or understating an increasing GST adjustment or overstating a decreasing GST adjustment.

You can correct a debit error on a later activity statement if the debit error is within the Debit error time limit, the net sum of the debit errors is within the Debit error value limit and the debit error is not a result of recklessness or intentional disregard of a GST law.

<b>Current GST turnover</b>	<b>Debit error time limit</b>
Less than \$20 m	The debit error must be corrected on an activity statement that is lodged within 18 months of the due date of the activity statement in which the error was made.
\$20 m or more	The debit error must be corrected on an activity statement that is lodged within 12 months of the due date of the activity statement in which the error was made

If the debit error time limit has expired, you need to revise the activity statement that contains the error if the period of review (four years and one day) for that statement has not yet expired.

You **cannot** correct a credit or debit error on a later activity statement if any of the following apply:

- the GST error relates to a matter that is subject to a compliance activity as advised by the ATO or if the GST error was made in a reporting period that is subject to compliance activity
- you have corrected the GST error in another reporting period
- if the debit error was as a result of recklessness or intentional disregard of a GST law.

## How to make corrections on a later activity statement

To correct a GST error, you include the correction amount at boxes 1A or 1B. If the net result of the error(s) is that you have paid too little GST include the amount at 1A, alternately if the net result is that you have overpaid GST include the amount at 1B. You may also reflect the correction at boxes G1, G2, G3, G10 or G11 as appropriate. You must keep records and other relevant information to explain the correction.

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# Definition of a GST adjustment

You make a GST adjustment on your activity statement if a later event changes the amount of GST payable for a sale or the GST credit you are entitled to for a purchase. For example:

- an event occurs that changes the price of a sale or a purchase (for example, you provide a discount to a customer or receive a rebate from a seller)
- a taxable sale or creditable purchase you made is cancelled (for example, where goods are returned)
- you write off a bad debt or you recover a previously written-off bad debt
- your actual use of a purchase or importation for business purposes differs from your intended use
- you make or receive a third party payment
- you cancel your GST registration
- you sell something that you used to make financial supplies.

Making GST adjustments is different from correcting GST errors made on an earlier activity statement. A **GST adjustment relates to a reported sale or purchase** that was correct at the time of lodgment, whereas a **GST error relates to an amount that was incorrect** at the time of lodgment.

## GST restricted refunds

A GST restricted refund occurs where you make an overpayment of GST but you are not entitled to a refund if it would result in a windfall gain.

This can occur when you incorrectly treat a GST-free or input taxed sale as taxable or when you miscalculate the GST payable (for example, miscalculating the GST for the sale of a property under the margin scheme) or for any other reason. The refund of the excess GST is restricted if you included the incorrectly charged GST in the sale price and did not reimburse it to your customers. This is to ensure that businesses do not get a windfall gain.

However, if you would not receive a windfall gain you may be entitled to a refund:

- If you have not included the GST in the sale price - for example, you did not charge GST on the sale but incorrectly reported the sale as taxable on your activity statement. In such a case, you are entitled to a refund of excess GST. You can claim the refund by following the steps for correcting a GST error if you meet all the other conditions.
- If you reimburse the amount of excess GST to your customers you can claim a refund. In these circumstances you do not treat the refund as a correction of a GST error. In most cases, you claim a refund by making a decreasing adjustment in the reporting period in which you make the reimbursement.

### **Example: GST restricted refund on overpaid GST**

Megan paid \$3000 in GST on 21 July 2016 for her June 2016 monthly reporting period. In August, Megan discovered that some of the sales included on her June activity statement were actually GST-free sales and that she had consequently overpaid GST and incorrectly charged her customers. Her assessed GST net amount should have been \$2,500.

In September 2016, Megan reimbursed the excess GST to her customers and as a result, she became entitled to a refund of \$500. To claim the refund, Megan made a decreasing adjustment of \$500 in her September 2016 activity statement.

## How to correct GST errors on a later activity statement

XYZ Pty Ltd has a current GST turnover of less than \$20 million. While preparing its activity statement for the June 2015 quarterly reporting period (being lodged on time), it discovers that it failed to claim a GST credit for a purchase it was entitled to claim for an earlier reporting period. XYZ Pty Ltd was entitled to claim the GST credit in the September 2013 reporting period.

XYZ Pty Ltd also discovers that it made two GST errors in working out its GST net amount for earlier reporting periods.

The first GST error is a \$15,000 debit error made in working out the net amount for the March 2014 reporting period. The debit error relates to under-reporting GST payable on a taxable sale of commercial residential premises that, based on advice XYZ Pty Ltd received at the time, was considered to be an input taxed sale of residential premises. XYZ Pty Ltd lodged its March 2014 activity statement on 28 April 2014.

The second GST error is a \$7,000 credit error relating to a decreasing GST adjustment. XYZ Pty Ltd forgot to take into account the GST adjustment in working out its net amount for the June 2013 reporting period. XYZ Pty Ltd lodged its June 2013 activity statement on 28 July 2013.

XYZ Pty Ltd is not subject to any compliance activity at the time of preparing its activity statement for the June 2015 reporting period and has not taken the GST errors into account in working out its GST net amount for another reporting period.

As the GST credit that XYZ Pty Ltd failed to claim in the September 2013 reporting period is not a GST error, it does not need to work out whether conditions for correcting a credit error are satisfied. XYZ Pty Ltd can claim the GST credit in the June 2015 reporting period.

XYZ Pty Ltd works out whether it can to correct the GST errors in its June 2015 quarterly reporting period as follows:

<b>Rules for correcting GST errors</b>	<b>GST error made: \$7,000 credit error June 2013 quarterly reporting period</b>	<b>GST error made: \$15,000 debit error March 2014 quarterly reporting period</b>
Does the error relate to an <b>amount of GST, GST credit or GST adjustment</b> ?	Yes GST adjustment error	Yes Amount of GST
At time of lodging the later activity statement to correct the GST error, do both of the following apply? The GST error: <ul style="list-style-type: none"> <li>• does not relate to a matter that is specified as being subject to <b>compliance activity</b></li> <li>• is not made in working out the net amount for an earlier reporting period that is subject to <b>compliance activity</b></li> </ul>	Yes	Yes
The GST error was not taken into account in working out the net amount for another reporting period?	Yes - not taken into account	Yes - not taken into account
The GST error was not taken into account in working out the net amount for another reporting period?	Yes – not taken into account	Yes – not taken into account
Will the activity statement for the later reporting period be lodged during the period of review of the earlier reporting period?	Yes The period of review for the June 2013 quarterly activity statement ends on 29 July 2017. The later activity statement which corrects the error will be lodged on or before 28 July 2015.	Yes The period of review for the March 2014 quarterly activity statement ends on 29 April 2018. The later activity statement which corrects the error will be lodged on or before 28 July 2015.
Will the error be corrected in an activity statement that is yet to be lodged?	Yes	Yes
If the GST error was a debit error, was the error caused by recklessness or intentional disregard?	Not applicable – credit error	No
Are the debit errors corrected within the applicable <b>debit error time limit</b> ?	Not applicable - credit error	Yes Lodgement date for June 2015 activity statement is within 18 months of the due date for lodgement of the March 2014 activity statement (that is, 28 October 2015).
Is the net sum of the debit errors within the applicable debit error value limit?	Not applicable - credit error	Yes Net sum of the debit errors is \$8,000 (\$15,000 debit less \$7,000 credit), which is below the applicable debit error value limit of \$10,000. XYZ Pty Ltd cannot offset the GST credit it failed to claim in September 2013 as it is not a credit error.

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Therefore, in its activity statement for the June 2015 quarterly reporting period XYZ Pty Ltd can correct both GST errors (the credit error and the debit error) and claim the GST credit that it failed to include in the September 2013 reporting period.

To correct the errors in the June 2015 quarterly reporting period, XYZ Pty Ltd adds \$8,000 at box 1A. It then reflects the correction in 1A by adding \$88,000 (if it chose to report the GST-inclusive amount) in G1 or \$80,000 (if it chose to report the GST-exclusive amount).

## Correction limits for GST and fuel tax credits

For goods and services tax (GST) and fuel tax credits you can use your current BAS to correct errors you made on earlier activity statements provided that you are within the time limits and value limits.

Annual turnover	Time Limit
Less than \$20m	18 months, that is: <ul style="list-style-type: none"><li>● 18 monthly activity statements, or</li><li>● 6 quarterly activity statements, or</li><li>● 1 annual GST return</li></ul>
\$20m or more	3 months (three activity statements)

**If you are outside your time or value limit, you have to revise the original activity statement.**

## Terms used

- **GST credits** means **input tax credits**
- **Purchase** means **acquisition**
- **Sale** means **supply**
- **Payment** (made or received) means **consideration**
- **Decreasing GST adjustment** means an adjustment, which decreases net GST for the reporting period
- **WET** means **wine equalisation tax**
- **LCT** means **luxury car tax**