



**Australian Government**

**Australian Taxation Office**

# Correcting GST mistakes

This guide explains when businesses can use a later activity statement to correct mistakes made on an earlier activity statement.



This guide does not apply to 'adjustments' as defined in the goods and services tax (GST) law, just errors and omissions.

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#### **OUR COMMITMENT TO YOU**

The information in this publication is current at July 2004 and we have made every effort to ensure it is accurate. However, if something in the publication is wrong or misleading and you make a mistake as a result, you will not be charged a penalty. You may have to pay interest, depending on the circumstances of your case.

If you feel this publication does not fully cover your circumstances, please seek help from the Tax Office or a professional adviser. Since we regularly revise our publications to take account of any changes to the law, you should make sure this edition is the latest. The easiest way to do this is by checking for a more recent version on our website at **[www.ato.gov.au](http://www.ato.gov.au)**

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## **INTRODUCTION**

When completing your activity statement you may discover you have made a mistake or left something out on a previous activity statement. While the normal way to correct these mistakes is to revise the previous activity statement, in some cases you can correct it on a later activity statement.

## **DEFINITIONS**

In this guide the terms 'sales' and 'purchases' are used to include a broad range of transactions.

Sales (or supplies) include, but are not limited to, selling goods and services, leasing out or selling property, hiring out equipment, giving advice, exporting goods, and making financial supplies.

Purchases (or acquisitions) include, but are not limited to, purchasing goods and services, leasing or buying property, hiring equipment, acquiring trading stock, consumables, rights, advice or information, and acquiring financial supplies.

## INPUT TAX CREDITS YOU COULD HAVE CLAIMED ON AN EARLIER ACTIVITY STATEMENT

You may have been entitled to claim input tax credits on an earlier activity statement, but for some reason you did not. For example, you were not aware that you had a tax invoice. You can claim the input tax credits on any activity statement after you have a tax invoice. In these cases, there is no time limit to the amount of credits you can claim for a creditable purchase on a subsequent activity statement where you have a tax invoice.

In all other cases where you have made a mistake, or left something out on an earlier activity statement, there are limits to the amount of the correction you can make on a later activity statement and, in some instances, there is a time limit on when you can make the correction. If you are a member of a GST group, time and correction limits apply to GST groups as a whole and not to each entity in the GST group.

## CORRECTIONS THAT DECREASE YOUR GST TO BE PAID

If you discover you made other mistakes on an earlier activity statement that meant you paid too much GST, you may be able to make a correction on a later activity statement. Subject to the correction limits outlined in the tables on this page and page 4, you can make these corrections on your current activity statement or on any later one.

These corrections may be needed where you:

- > made clerical mistakes, for example, double counted your taxable sales
- > incorrectly recorded a GST-free sale as taxable on an earlier activity statement, or
- > mistakenly classified GST-free sales as taxable, that is, you incorrectly included GST in the price charged to a customer. In this case, you need to reimburse the overcharged amount to all customers – including customers that are not registered for GST – before you make the correction.

## CORRECTIONS THAT INCREASE YOUR GST TO BE PAID OR DECREASE YOUR INPUT TAX CREDITS

If you discover you made mistakes or left things out on an earlier activity statement that meant you paid too little GST or claimed too much input tax credit, you may be able to make a correction on a subsequent activity statement. Corrections are subject to limits on the timing of the correction and on the amount of the correction outlined in the tables on this page and page 4. You will only be able to correct genuine mistakes.

You may need corrections where you have:

- > made clerical mistakes, for example, double counted some creditable purchases or did not include some taxable sales
- > incorrectly recorded a taxable sale as GST-free on an earlier activity statement, or
- > mistakenly classified taxable sales as GST-free.

Where a mistake or omission relates to an earlier activity statement that falls outside the time or correction limits detailed below, you will need to revise that earlier activity statement (see 'Revising an earlier activity statement' on page 7).

## TIME LIMITS

You can make corrections to:

- > increase your GST to be paid, or
- > decrease your input tax credits.

These can be made on your next activity statement only if the errors fall within the time limits outlined in this table. The time limits correspond to the size of your business.

Annual turnover	Time limits
Less than \$20m	Up to 18 months (18 monthly activity statements, 6 quarterly activity statements or 1 annual GST return)
\$20m to less than \$100m	Up to 3 months (3 monthly activity statements)
\$100m to less than \$500m	Up to 3 months (3 monthly activity statements)
\$500m to less than \$1b	Up to 3 months (3 monthly activity statements)
\$1b and over	Up to 3 months (3 monthly activity statements)

If you are a small business that pays GST by instalments for a full year you will account for GST on an annual basis and report GST in an annual GST return. Where you make an error in that return, subject to the correction limits outlined on page 4, you will be able to correct that error in your next annual GST return. Correcting your mistakes in this way may inflate your notified instalment amount in the following year.

Where the mistakes from your previous activity statements occur outside the appropriate time limit, you must revise each of your original activity statements that the mistakes occurred in (see 'Revising an earlier activity statement' on page 7).

## CORRECTION LIMITS

You can make corrections to:

- > increase your GST to be paid
- > decrease your GST to be paid
- > decrease your input tax credits, or
- > increase your input tax credits (only if this is a result of a mistake this guide applies to, that is, it is not a delayed attribution of input tax credits).

You can make these corrections on your next activity statement, only if their net effect (that is the total GST effect of all the errors) is within the correction limits outlined in this table. The correction limits correspond to the size of your business.

Annual turnover	Correction limits <sup>1</sup>
Less than \$20m	Less than \$5,000
\$20m to less than \$100m	Less than \$10,000
\$100m to less than \$500m	Less than \$25,000
\$500m to less than \$1b	Less than \$50,000
\$1b and over	Less than \$300,000

<sup>1</sup> Whether the net change is an increase or a decrease.

Correction limits are the net effect of the total of all errors occurring in earlier activity statements. They are the maximum amount of corrections you can make on a later activity statement. They are not determined on a 'per activity statement' or 'per mistake' basis.

#### EXAMPLE 1: CORRECTIONS THAT EXCEED THE LIMITS

A small business with an annual turnover of \$1 million incorrectly included five taxable sales on its previous two quarterly activity statements. The GST-inclusive amount of these sales was \$11,220 each (totalling \$56,100), with GST of \$1,020 to be paid on each (totalling \$5,100). The total amount overpaid on the earlier activity statements and needing correction is \$5,100, which exceeds the limit of \$5,000, even though the amount of each mistake was below the limit.

In working out whether your corrections are within these limits, you can offset total overpayments against total underpayments. Assume this business has also incorrectly included input tax credits of \$1,500 for a purchase on its earlier activity statement (the GST-inclusive amount of the purchase was \$16,500). The net effect of all the corrections is a reduction in GST of \$3,600 (that is, \$5,100 – \$1,500), which is less than the limit. This business could correct these mistakes on its current activity statement.

Where the net effect of mistakes from your earlier activity statements exceeds the appropriate limit, you must revise your original activity statements that the mistakes occurred in (see 'Revising an earlier activity statement' on page 7). In some cases each of your original activity statements will need to be revised. In other cases you may only need to revise some of your original activity statements as this may be sufficient for you to bring the net effect of your remaining mistakes below the appropriate level. Examples later in this guide explain how alternative approaches might be applied.

## MAKING CORRECTIONS ON YOUR CURRENT ACTIVITY STATEMENT

If you use the accounts method, you simply add or subtract the correction amounts at boxes 1A and/or 1B to adjust the amounts for the current period. You also reflect the corrections in the amounts of sales and purchases (GST-inclusive or GST-exclusive) at boxes G1, G2, G3, G10 or G11 as appropriate.

#### EXAMPLE 2: MAKING THE CORRECTIONS

Using the business in Example 1, the incorrect inclusion of the five taxable sales would require the amount at box 1A to be reduced by \$5,100. The business would also reduce the amount at box G1 by \$56,100 (the GST-inclusive amount of the sales incorrectly included) or \$51,000 (if it chose to show GST-exclusive amounts on the activity statement). The correction resulting from the over claimed input tax credits would require the amount at box 1B to be reduced by \$1,500 and the amount at box G11 by \$16,500 (the GST-inclusive amount of the relevant purchase) or \$15,000 (if the business chose to show GST-exclusive amounts on the activity statement).

If you use the calculation sheet method, you add or subtract the full GST-inclusive amounts at the appropriate box. This business would reduce the amount at box G1 by \$56,100 and the amount at box G11 by \$16,500.

Do not make corrections in the adjustment boxes (G7 or G18 if you use the calculation sheet). These boxes are generally reserved for 'adjustments' as defined in the GST law.

## MISTAKES THAT CAN BE CORRECTED

You may only use the arrangements in this guide to correct mistakes that are genuine and reasonable. In cases where we consider that you are deliberately manipulating your affairs to take unwarranted advantage of the arrangements in this guide, you will be unable to rely on it in relation to the 'mistakes'. You will need to go back and revise each activity statement an error occurred in. The general interest charge will apply from the due dates of those earlier activity statements. We may also withdraw the right for you to use the arrangements in this guide in the future.

We may consider that you are abusing the arrangements in this guide when you establish a regular pattern of correcting mistakes by adjusting your current activity statement for amounts that are at the upper end of the correction limits. However, where these mistakes are genuine and occur in the normal course of your business, we may not consider that you are abusing these arrangements.

### EXAMPLE 3: GENUINE AND REASONABLE MISTAKES

A business with a turnover of less than \$20 million that lodges nil activity statements for three quarters to use the arrangements in this guide and pay the whole amount in quarter 4 (as the total amount of GST to be paid in these quarters is less than \$5,000), will not be correcting mistakes that are genuine and reasonable. We would consider that the business was deliberately manipulating its affairs and would withdraw the business's right to use the arrangements in this guide. The business would need to revise its activity statements for the earlier quarters and will be subject to the general interest charge from the due dates of those earlier activity statements.

You will be unable to rely on this guide where we consider that you are deliberately manipulating your affairs to take unwarranted advantage of the arrangements in this guide. Where you find a mistake during a tax period, you should try to correct it in that tax period (either by correcting it in your next activity statement – where the mistake is in line with this guide – or by requesting a revision of the activity statement where the mistake occurred).

An entity may delay correcting a mistake that would decrease its GST to be paid (or that would increase its input tax credit entitlement) to ensure that the net effect of a future correction that would increase its GST to be paid (or decrease its input tax credit entitlement) is within the correction limit. Making a mistake could be considered an ordinary part of running your business, and some entities may choose to delay the correction of credit mistakes (that is, mistakes that decrease GST to be paid or increase input tax credit entitlements) to hedge against unforeseen mistakes in the future that increase the entity's net amount (that is debit mistakes). A bank of credit corrections is almost like the entity taking out insurance as the bank of credit corrections means that unforeseen future debit corrections are in line with this guide. This enables the entity to avoid the need to revise past activity statements and be liable for the general interest charge. Storing credit corrections in these situations is within the scope of this guide.

However, we might query the actions of an entity that develops a pattern of delaying credit corrections. Where the offsetting debit mistake(s) was identifiable in a previous tax period, we would consider that the entity is deliberately manipulating its affairs to take unwarranted advantage of the arrangements in the guide. For example, we would consider an entity with an annual turnover greater than \$1 billion that chooses to delay correction of a \$150,000 credit mistake identified in the current period because it knows that it is making a \$400,000 debit 'mistake' in that period (or expects to make such a deliberate error in a future tax period) is deliberately manipulating its affairs to take unwarranted advantage of the arrangements in this guide.

Every correction that would increase an entity's GST to be paid or that would decrease its entitlement to input tax credits should be made as soon as possible after the mistake is found (either by making the correction in the next activity statement – where the correction is in line with this guide – or by requesting a revision of the activity statement that the relevant mistake occurred in). To delay the correction of a debit mistake until the last tax period the time limit runs out in would be a deliberate manipulation of an entity's affairs. We would consider the entity is taking unwarranted advantage of the arrangements in this guide.

If we consider that an entity is taking unwarranted advantage of the arrangements in this guide it will mean that the entity would not be able to use these arrangements to correct mistakes. The entity would then need to revise the activity statements for the earlier tax periods the mistakes occurred in and would be liable for the general interest charge on unpaid amounts from the due dates of those earlier activity statements. We may also withdraw the right for the entity to use these arrangements in the future.

### WHAT IF WE HAVE COMMENCED COMPLIANCE ACTION?

Once you have received advice from us about our intention to conduct a review, you are unable to apply the arrangements in this guide from that date until the review has been finalised. The advice may be in writing or by phone. At that time, we will arrange to revise all relevant activity statements to correct any errors uncovered in the review, including any voluntary disclosures notified at the start of or during the course of the review. The general interest charge will apply from the due dates of those earlier activity statements.

#### FINDING ERRORS

If you find errors in your previously lodged activity statements after we have notified you that we will review your activity statements, it is in your best interests to voluntarily disclose the errors.

However, where an error is detected during a review and it is evident that you have made a genuine attempt to comply with your tax obligations there will be no penalty on the shortfall amount. If the error is within the correction and time limits of this guide we may allow you to use these arrangements and include the amount in your next activity statement. If the error is outside the correction or time limits of this guide we will normally revise your net amount for the relevant tax period and you would be sent a notice of assessment. The general interest charge will need to be paid on a revision to an activity statement for an earlier tax period.

#### EXAMPLE 4: CORRECTING LEGITIMATE MISTAKES

Chand Associates has a turnover of \$2 million. It reports and pays GST on a quarterly basis and lodged four quarterly activity statements for the 2002-03 income year. After completing its income tax return on 31 October 2003, Chand Associates realises that it made the following mistakes:

- > July–September 2002 activity statement – over claimed \$800 in input tax credits (as a purchase was only 50% creditable)
- > October–December 2002 activity statement – under paid \$400 in GST (from incorrectly recording a taxable sale as GST-free)
- > January–March 2003 activity statement – under paid \$800 in GST (from incorrectly recording a taxable sale as GST-free)
- > April–June 2003 activity statement – under paid \$1,400 in GST (from incorrectly recording a taxable sale as GST-free), and
- > July–September 2003 activity statement – under paid \$1,400 in GST (from incorrectly recording a taxable sale as GST-free).

Chand Associates fixes its incorrect classification of the taxable sale from 1 October 2003 so that this error does not recur from that date.

Chand Associates wishes to correct all of the errors that occurred in the 15-month period in its October–December 2003 activity statement. We would consider that all of Chand Associates' mistakes are genuine and reasonable since they are made in legitimate circumstances and it has not deliberately manipulated its affairs to take advantage of the arrangements in this guide. The total of Chand Associates' errors in the 15-month period from July 2002 to September 2003 is \$4,800. As this is below the correction limit threshold for Chand Associates, and it wishes to correct its mistakes within the time limit threshold, Chand Associates may make this correction in its October–December 2003 activity statement.

Its correction will be:

- > inclusions of the taxable sales
  - increase box 1A by \$4,000
  - either increase box G1 by \$44,000 (or \$40,000 if it is reporting GST- exclusive amounts on its activity statement) or decrease box G3 by \$44,000 (or \$40,000 if it is reporting GST-exclusive amounts)
- > reduction in input tax credits
  - decrease box 1B by \$800
  - no change to G10 or G11 as the amount shown on Chand Associates' previous activity statements would have already included the purchase
- > if it uses the calculation sheet to determine the amount of GST it needs to report and pay, it will include \$8,800 at G15.

Other examples are included at Appendix B on page 9.

#### WHY ARE WE ALLOWING YOU TO CORRECT MISTAKES MADE ON AN EARLIER ACTIVITY STATEMENT?

We are allowing you to correct mistakes in later activity statements, where you meet the requirements of this guide, to remove the need to lodge revised activity statements and reduce your compliance costs.

#### CONSEQUENCES OF MAKING MISTAKES

In some situations the GST law requires you to do other things as well as correcting your activity statement when you make a mistake. This guide does not remove these obligations from you. For example, if a tax invoice that you have issued has incorrect information on it, you must cancel it and issue a correct tax invoice.

Where you have incorrectly recorded a taxable sale as a GST-free sale, you are still liable for GST at 1/11th of the price of the sale. If the recipient of the sale requests it, you must issue a tax invoice within 28 days of the request.

Where you have charged GST on a GST-free sale, you can not correct the error in a later activity statement until you have reimbursed the GST to the recipient.

#### SPECIAL CREDIT FOR WHOLESALE SALES TAX

If you have claimed a special credit for wholesale sales tax for your stock on hand on 1 July 2000, you can make a correction to the amount you claimed only by revising the activity statement on which you made the original claim.

#### RECORD KEEPING

If you correct mistakes on your activity statement, you should keep a note to record the tax period(s) when the mistakes were made and the activity statement(s) they were corrected on. Records and other relevant information should also be kept to explain the correction.

## PENALTIES AND GENERAL INTEREST CHARGES

If you correct a mistake within the time and correction limits, there will be no penalties or general interest charges. However, if we consider that you are misusing the arrangements in this guide, you will not be able to rely on it and will need to revise your earlier activity statements to correct the mistakes. You may be subject to penalties and general interest charges where you have underpaid amounts of GST (see 'Mistakes that can be corrected' on page 4).

## REVISING AN EARLIER ACTIVITY STATEMENT

If you need to revise an earlier activity statement, you should phone **13 28 66** and ask us to send you a revised activity statement to complete. Revising an earlier activity statement may mean that you are liable for the general interest charge where you have underpaid amounts of GST.

## APPLICATION TO OTHER TAXES

You can only correct GST mistakes using the arrangements in this guide.

## MORE INFORMATION

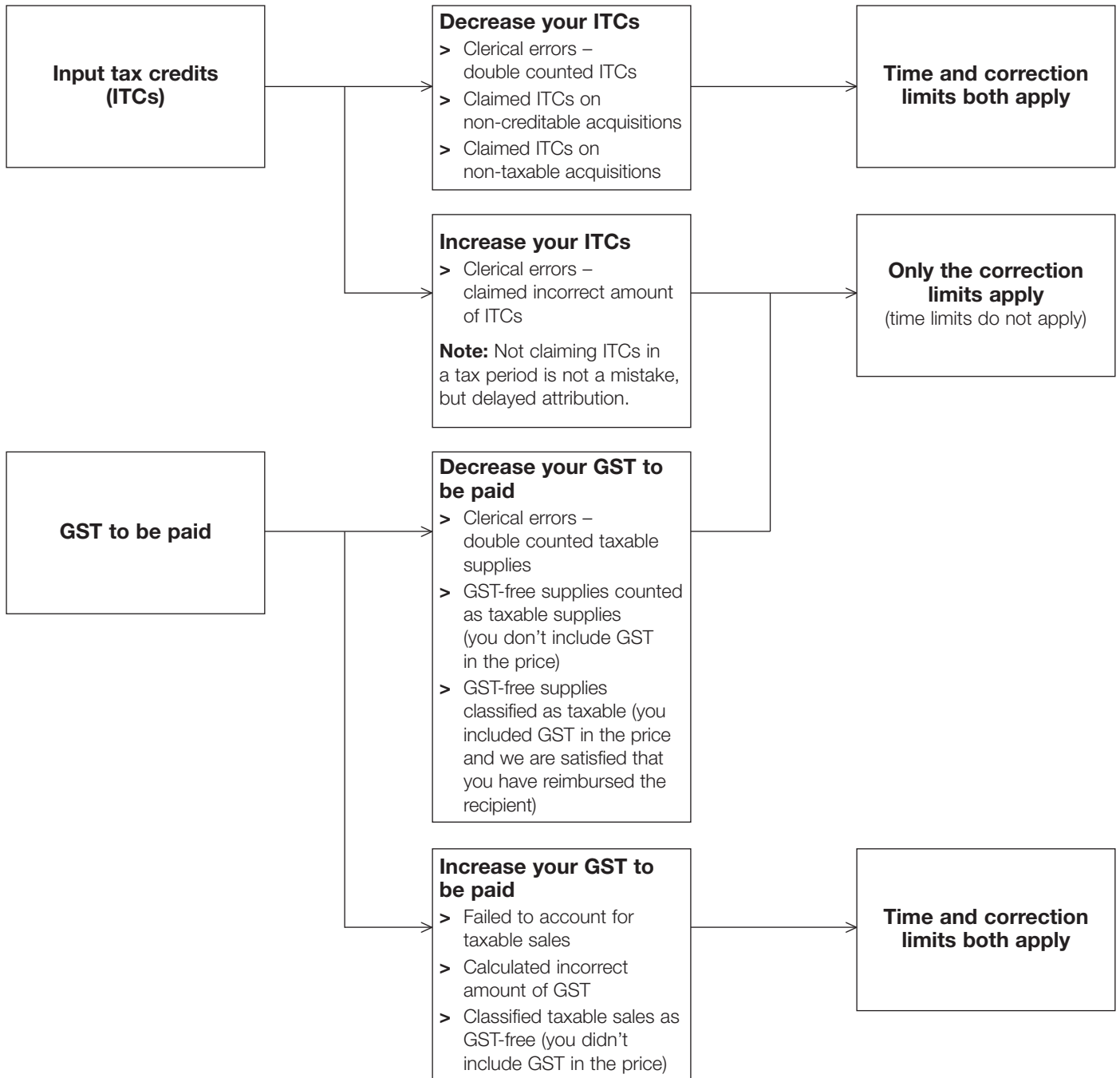
For more information:

- > visit **[www.ato.gov.au](http://www.ato.gov.au)**
- > phone **13 28 66**
- > obtain a fax by phoning **13 28 60**, or
- > write to us at PO Box 9935 in your capital city.

If you do not speak English well and want to talk to a tax officer, phone the Translating and Interpreting Service on **13 14 50** for help with your call.

If you have a hearing or speech impairment and have access to appropriate TTY or modem equipment, phone **13 36 77**. If you do not have access to TTY or modem equipment, phone the Speech to Speech Relay Service on **1300 555 727**.

## APPENDIX A



## APPENDIX B

### EXAMPLE A: ADVICE ON HOW TO FIX MISTAKES

Kailash Associates' annual turnover is \$10 million and it lodges quarterly activity statements.

Early in March 2004 Kailash carried out a review of its past activity statements and discovered that some errors had been made (summarised in the table). Kailash Associates has requested our advice on using this guide to fix these mistakes in its next activity statement, for the March 2004 quarter (due on 28 April 2004).

Tax period	Mistake	Net GST increase	Net GST decrease	Net change
September 2002 quarter	Clerical error – failed to claim input tax credits		\$800	-\$800
December 2002 quarter	Treated taxable sales as GST-free	\$1,500	-	
	Double counted taxable sales	-	\$3,000	-\$1,500
March 2003 quarter	Double counted creditable purchases	\$1,500	-	
	Claimed input tax credits on non-creditable purchases	\$2,000	-	+\$3,500
June 2003 quarter	Clerical error – taxable sales not counted	\$2,000	-	
	GST-free sale incorrectly characterised		\$2,500	-\$500
September 2003 quarter	Double counted taxable sales	-	\$1,100	
	Clerical error – double counted input tax credits	\$3,000	-	+\$1,900
December 2003 quarter	No errors were found	-	-	-
	<b>TOTAL</b>	<b>\$10,000</b>	<b>\$7,400</b>	<b>+\$2,600</b>

#### QUESTION 1:

**The net effect of all the mistakes is +\$2,600. Can Kailash Associates correct all the mistakes in its current activity statement?**

The clerical error (-\$800) in the September 2002 quarter is not a mistake, but a delayed attribution of input tax credits. Generally an entity will attribute input tax credits to the first tax period in which it holds a tax invoice (subject to the cash and non-cash attribution rules). However, the GST Act allows an entity to postpone the attribution of an input tax credit to any tax period after it has a tax invoice (subsection 29-10(4) of the GST Act). Postponing attribution in such a way is not a mistake.

This means that the net effect of all mistakes is +\$3,400, not +\$2,600. However, as the net effect is still within the correction limits in this guide and all the mistakes are within the time limits, Kailash Associates is able to use the guide to correct all the mistakes in its next activity statement.

#### QUESTION 2:

**The net effect of the mistakes, excluding the credit mistake (\$1,100) in the September 2003 quarter that is not subject to the time limits, is +\$3,700. Can Kailash Associates correct all the mistakes, excluding the -\$1,100 mistake in the September 2003 quarter, in its current activity statement?**

The clerical error (-\$800) in the September 2002 quarter is not a mistake so, after excluding the -\$1,100 mistake in the September 2003 quarter, the net effect of all mistakes is +\$4,500. This is still within the correction limits in this guide.

Kailash Associates may delay fixing the \$1,100 credit mistake where the only reason is to have a bank of credit mistakes so that it can correct unexpected future debit mistakes. However, we would consider that a delay in correcting a credit mistake is not genuine where the reason Kailash Associates wishes to delay correcting the credit mistake is because it knows it will have an offsetting debit mistake in a future tax period. Kailash Associates would be considered to be deliberately manipulating its affairs to take unwarranted advantage of the arrangements in this guide.

Refer to the section on deliberate manipulation, 'Mistakes that can be corrected' on page 4, for more information.

**QUESTION 3:**

**Kailash Associates would like to delay correcting the mistakes in the September 2002 quarter (–\$800 that is not subject to the time and correction limits) and in the September 2003 quarter (no time limit for the –\$1,100 mistake, and, including the current quarter, five quarters remaining to correct the +\$3,000 mistake) to a subsequent quarter. Can Kailash Associates correct the mistakes in the December 2002, March 2003 and June 2003 quarters (net effect +\$1,500) only in its current activity statement?**

No. A debit correction should always be made as soon as possible after Kailash Associates finds the relevant mistake (either by correcting it in the next activity statement – where the correction is in line with this guide – or by revising the activity statement where the mistake occurred). To delay correcting the debit mistake until the last activity statement the time limit runs out in would be a deliberate manipulation of the entity's tax affairs. We would consider Kailash Associates is taking unwarranted advantage of the arrangements in this guide and may withdraw the right for it to use these arrangements in the future. Kailash Associates would also need to revise the activity statement where the mistake occurred and would be subject to the general interest charge from the due date of that past activity statement.

The clerical error (–\$800) in the September 2002 quarter is not a mistake, but a delayed attribution of input tax credits.

**QUESTION 4:**

**Excluding the mistake in the September 2002 quarter (–\$800 that is not subject to the time and correction limits) and the credit mistake in the September 2003 quarter (–\$1,100 that is not subject to the time limits), the net effect of the mistakes is +\$4,500). Can Kailash Associates correct all the other mistakes in its current activity statement?**

Generally, yes.

The clerical error (–\$800) in the September 2002 quarter is not a mistake, but a delayed attribution of input tax credits.

Kailash Associates may delay fixing the \$1,100 credit mistake if the only reason is to have a bank of credit mistakes so that it can fix unexpected future debit mistakes. That is, the bank of credits is more like an insurance against unexpected future debit mistakes so it does not have to revise activity statements or pay the general interest charge. Storing credit mistakes in these situations does not lead us to believe that the entity is deliberately manipulating its affairs.

However, if the reason Kailash Associates wishes to delay fixing the credit mistake is because it knows it will have an offsetting debit mistake in a future tax period, then we would consider that the delay in fixing the credit mistake is not a genuine mistake. Kailash Associates would be considered to be deliberately manipulating its affairs to take unwarranted advantage of the arrangements in this guide.

This guide states that an entity will not be able to rely on the arrangements outlined in it where we consider that the entity is deliberately manipulating its affairs to take unwarranted advantage of these arrangements. If an entity finds a mistake in a tax period, it should try to fix it in that tax period (by either correcting it in the next activity statement – where the mistake is within this guide – or revising the activity statement where the mistake occurred).

In addition, where there is a pattern developing in the delay of fixing credit mistakes, we may query this behaviour and examine the mistakes the entity is fixing. Where the offsetting debit mistake(s) was identifiable in a previous period, we would consider that the entity is deliberately manipulating its affairs to delay fixing the mistakes. The entity would need to revise its activity statements for the earlier quarters and will be subject to the general interest charge from the due dates of those earlier activity statements. We may also withdraw the right for the entity to use these arrangements in the future.

**QUESTION 5:**

**Is Kailash Associates obliged to take some other course of action?**

Please see 'Consequences of making mistakes' on page 6. Where an entity has incorrectly recorded a taxable sale as GST-free, it is still liable for GST at 1/11th of the price of the sale. The entity must give a tax invoice to the recipient within 28 days of a request.

Where an entity has incorrectly charged GST in the price of a GST-free sale, it is able to correct mistakes in a subsequent activity statement after it has reimbursed the GST to the recipient and cancelled any tax invoices issued in relation to that sale.

An entity should also take steps to ensure that the same mistakes are not repeated in future tax periods. The GST-free sale should be re-recorded as taxable (or vice versa) and the system error that allowed taxable sales/creditable purchases to be double counted corrected.

**EXAMPLE B: WHEN CAN CORRECTIONS BE MADE?**

Basil Associates' annual turnover is \$5 million. It lodges its activity statements and pays its GST on a quarterly basis. After preparing its income tax return on 31 October 2003, Basil Associates identifies that it has made a number of GST mistakes in past activity statements. This is summarised in this table. Basil Associates wants to know if we would allow some or all of the mistakes made in the last 15 months, to be corrected in its next activity statement, for the December 2003 quarter.

Tax period	Mistake	Net GST increase	Net GST decrease	Net change
September 2002 quarter	Input error – incorrect input tax credits claimed	-	\$2,000	–\$2,000
December 2002 quarter	Duplicated several taxable sales	-	\$1,000	–\$1,000
March 2003 quarter	Input error – taxable sales not counted	\$4,000	-	
	Clerical errors – input tax credits not claimed	-	\$3,000	+\$1,000
June 2003 quarter	System error – taxable sales duplicated	-	\$5,000	
	System error – taxable sales not counted	\$10,000	-	+\$5,000
September 2003 quarter	No errors were found	-	-	-
	<b>TOTAL</b>	<b>\$14,000</b>	<b>\$11,000</b>	<b>+\$3,000</b>

**QUESTION 1:**

**The net effect of all the mistakes is +\$3,000. Can Basil Associates correct all of the mistakes in the December 2003 quarter activity statement that is due on 28 February 2004?**

The credit mistake of \$3,000 in the March 2003 quarter is not a mistake but a delayed attribution of input tax credits. Therefore the net GST decrease totals \$8,000 and the net change is +\$6,000.

As the net effect of mistakes from the earlier activity statements exceeds the appropriate correction limit, Basil Associates must revise each of its original activity statements where the mistakes occurred.

Alternatively, Basil Associates may choose to attribute all the mistakes from the March 2003 quarter (including the clerical error –\$3,000), to that tax period by revising its activity statement for that tax period. The net effect of the revised March 2003 quarter activity statement is +\$1,000 and the general interest charge on this amount will apply from the due date of that activity statement (28 April 2003). After revising their March 2003 quarter activity statement, Basil Associates may then correct the remaining mistakes in its current activity statement as the net effect of these mistakes is +\$2,000.

**QUESTION 2:**

**Can Basil Associates correct only the errors in the December 2002 and June 2003 quarters (net effect +\$4,000) in the December 2003 quarter activity statement, request a revised activity statement for the March 2003 quarter (net effect +\$1,000 – with the general interest charge to be paid on this amount) and leave the corrections from the September 2002 quarter for a subsequent quarter?**

The clerical error in the March 2003 quarter activity statement is not a mistake but a delayed attribution of input tax credits. The net change for this quarter is +\$4,000.

Basil Associates may choose to attribute the mistakes from the March 2003 quarter (including the clerical error –\$3,000) to that tax period by requesting a revised activity statement for that tax period. The net effect of the revised March 2003 quarter activity statement is +\$1,000. The general interest charge on this amount would apply from the due date of that activity statement (28 April 2003) until the \$1,000 is paid. If Basil Associates does not choose to attribute the clerical error of –\$3,000 to that tax period, the net effect of the revised activity statement will be +\$4,000 and the general interest charge on \$4,000 would apply from 28 April 2003 until that amount is paid.

### ! REMISSION OF GENERAL INTEREST CHARGE

Basil Associates may apply to us for a remission of the general interest charge. The remission guidelines are available in the 'ATO Receivables Policy' at [www.ato.gov.au](http://www.ato.gov.au)

After revising its March 2003 quarter activity statement, Basil Associates may then correct the remaining mistakes in its current activity statement as the net change is now +\$2,000. Basil Associates may delay correcting the credit mistake from the

September 2002 quarter where the only reason for this delay is to have a bank of credit corrections so that it can correct unexpected future debit mistakes within the limits of this guide. A bank of credits is like an insurance against unexpected future debit mistakes so it does not have to request revised activity statements or pay the general interest charge. Banking credit mistakes in these situations does not lead us to think Basil Associates is deliberately manipulating its tax affairs.

Refer to the section on deliberate manipulation, 'Mistakes that can be corrected' on page 4, for more information.

### EXAMPLE C: WHEN CAN CORRECTIONS BE MADE?

Lavender Partners' annual turnover is \$15 million and it lodges its activity statements on a quarterly basis. An internal review was carried out in early March 2004 and the following GST mistakes were discovered. Lavender Partners would like to correct some or all of the mistakes in its next activity statement, the March 2004 quarter activity statement, in line with this guide.

Tax period	Mistake	Net GST increase	Net GST decrease	Net change
June 2002 quarter	System error – several sales not recorded	\$12,000	-	+\$12,000
September 2002 quarter	Error in calculating allowable input tax credits	-	\$7,000	-\$7,000
December 2002 quarter	Taxable sales treated as GST-free	\$16,000	-	+\$16,000
March 2003 quarter	GST-free sales recorded as taxable sales	-	\$7,000	-\$7,000
June 2003 quarter	Claimed input tax credits on non-creditable purchases	\$1,000	-	
	System error – taxable sales duplicated	-	\$2,000	-\$1,000
September 2003 quarter	No errors were found	-	-	-
December 2003 quarter	GST-free sales mistakenly classified as taxable sales	-	\$500	-\$500
	<b>TOTAL</b>	<b>\$29,000</b>	<b>\$16,500</b>	<b>+\$12,500</b>

The net effect of all the mistakes is +\$12,500, which exceeds the \$5,000 correction limit in this guide. However, the mistakes in the June 2002 quarter exceed the time limits and Lavender Partners is obliged to request a revised activity statement for

that quarter and pay the net effect of the revision (\$12,000) to us. The general interest charge would apply to that amount. The net effect of the remaining mistakes is +\$500.

**QUESTION 1:**

**Can Lavender Partners correct the remaining mistakes (net effect +\$500) in its March 2004 quarter activity statement that is due on 28 April 2004?**

After requesting a revised activity statement for the June 2002 quarter, Lavender Partners may then correct the remaining mistakes in its current activity statement for the March 2004 quarter.

The correction limits are not determined on a 'per activity statement' or 'per mistake' basis. The correction limits are the net effect of the total of all errors occurring in prior activity statements. Even though the mistake of +\$16,000 in the December 2002 quarter exceeds the correction limit, this amount may be corrected in the current activity statement because the net effect of the remaining mistakes fall within the correction limits.

**QUESTION 2:**

**Excluding the credit error of \$2,000 in the June 2003 quarter, can Lavender Partners correct the remaining mistakes in its current activity statement (net effect +\$2,500) and 'bank' the \$2,000 credit for a subsequent quarter?**

Lavender Partners is required to revise its activity statement for the June 2002 quarter first, and is then subject to the correction limits. It may correct the remaining mistakes in its March 2004 quarter activity statement.

Lavender Partners may delay the \$2,000 credit correction to a subsequent activity statement where the only reason to do so is to have a bank of credit corrections in order to fix unexpected future debit mistakes within the correction limits. The bank of credits is like an insurance against unexpected future debit mistakes so it does not have to request revisions to its prior activity statements or pay the general interest charge. Storing credit corrections in this manner would not lead us to regard Lavender Partners as deliberately manipulating its tax affairs.

Refer to the section on deliberate manipulation, 'Mistakes that can be corrected' on page 4, for more information.

