

ATO Guidance on GST Reverse Charge Provisions

2022 FSI Strategy



A core objective of the ATO's **2021/2022 Financial Services and Insurance (FSI) strategy** is building a GST pathway to justified trust for FSI clients. Underpinning a review of key specific industry risks is an emphasis on **good governance** and **building controls** to enable an organisation to achieve justified trust. In late December 2021, the ATO shared with advisors its findings on one of the key specific industry risks for FSI clients – the **GST reverse charge** provisions. We have summarised the findings and key takeaways for taxpayers below, to help organisations review their own controls and prepare for upcoming GST assurance activities.

What is a reverse charge?



There are some circumstances where **GST is paid by the purchaser**. This is called a 'reverse charge'. A reverse charge is **required on some offshore purchases**, namely, acquisitions of intangible supplies. Accordingly, where an entity in the FSI industry acquires from abroad IT services, advice, or more generally, **things other than goods or real property**, a GST liability may arise for the recipient entity pursuant to Division 84 of the GST Act.

ATO findings: room for improvement



In its review of taxpayers' existing procedures to account for reverse charged GST, the ATO has found that some businesses:

- Do not have in place a documented process to account for reverse charge on cross-border acquisitions, and consequently **understate their GST liabilities**;
- Have a documented process, but do not follow the outlined procedure in practice;
- Review offshore acquisitions as part of the BAS preparation process, but **only in relation to particular areas of the business or to high-value transactions**;
- Identify transactions subject to a reverse charge based on a vendor list while the **nature of supplies made by a particular vendor has changed** since the initial vendor list was prepared; and/or
- Use subsystems which **were not set up with built-in controls to flag offshore acquisitions**.

Expected compliance looks like...



- Well-designed and documented processes** to ensure the reverse charge is correctly applied;
- Robust controls** to ensure relevant transactions are identified, correctly accounted for, and disclosed in the lodged BAS; and
- Data analytics tests** to assist in identifying potential errors and subsequently enhancing the tax control framework so that errors do not occur repeatedly.

Best practice: an example



The ATO references an example of best practice, wherein the taxpayer ensures:

- All offshore vendor invoices without GST are flagged by the AP team using a **dedicated tax code**;
- Their tax team conducts **well-documented, comprehensive, monthly reviews** of all offshore acquisitions, including a manual review of GST coding applied to offshore invoices;
- A **separate GST clearing account** is used to track reverse charged acquisitions; and
- Reverse charged GST is **applied to related-party transactions**.

Going forward, businesses should...



- Review their tax control framework** to ensure that well-designed controls are in place to mitigate risks of non-compliance;
- Ensure they have **well-documented procedures** to set out the relevant steps involved in data processing and in reviews performed by the tax function as part of preparing the BAS; and
- Use **data analytics tests and trend analysis** to obtain confidence in their reporting and the operative efficacy of their procedures.

Who?

Australian entities in the Financial Services and Insurance industry

What?

ATO findings on compliance with the reverse charge provisions outlined in Division 84 of the GST Act

When?

FY 2021-22 onwards

Further information

[ATO Finding of Reviews](#)
[Division 84, A New Tax System \(Goods and Services Tax\) Act 1999](#)

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