

GST AND YOU

THE PARTIAL EXEMPTION METHOD

The General Sales Tax Act provides for businesses to recover input tax paid on their purchases.

Usually, a business has the right to recover input tax in the GST return for the accounting period in which the taxes were charged to the business. This is subject to the business holding the necessary evidence for example importation document or a tax invoice. However, if your business is partially exempt, you may not be able to recover all your input tax.

A business is partially exempt if it incurs input tax that relates to taxable supplies and input tax that relates to exempt supplies. Example, an establishment that provides hotel accommodation that is exempt, and meals and tours that are taxable.

If your business is partially exempt, you must use the partial exemption method to work out how much input tax is recoverable. Therefore, you need to know the following:

- Input tax on taxable supplies directly related to **exempt supplies** is **not recoverable**
- Input tax on taxable supplies directly related to **taxable supplies** is **fully recoverable**
- Input tax on taxable supplies that is not directly related to exempt nor taxable supplies is **partially recoverable**

To calculate the claimable proportion of your input tax that is neither directly related to exempt nor taxable supplies, you will need to apply the partial exempt method.

HOW DOES THE PARTIALLY EXEMPT METHOD WORKS?

1. Calculate the value of your taxable sales
2. Calculate the value of total sales (taxable and exempt)
3. Calculate the input tax that is not directly related to exempt nor taxable supplies for example telephone, electricity or cleaning supplies

<u>Value of taxable sales</u>	x	Input tax that is neither directly related
Value of total sales		to exempt nor taxable supplies (Taxable
+ exempt)		

EXAMPLE

<u>Value of Meals & Tours</u>	<u>2150.00</u>	x	Telephone GST 50.00 = \$29.45
Value of Meals, Tours & Accommodation	3650.00		