

30 November 2016

Shrady
fyi-request-4962-a3cf6f61@requests.fyi.org.nz

Dear Shrady

Thank you for your email of 16 November 2016 asking about how GST is accounted for on ride sharing fares.

GST is a value-added tax, with the cost of the tax being borne by the final consumer of the goods or services. In the ride share example the passenger will generally be the final consumer. GST is also a transactional tax, with the tax added to the value of each transaction.

One of the basic design principles of GST is that businesses should not be subject to the tax when producing their goods and services. This prevents GST from "cascading" as goods and services are supplied between businesses that are registered for GST, and it ensures that it is the final consumer who bears the cost of the tax.

As GST is designed to tax consumption rather than production, transactions between businesses should generally be GST-neutral, unless express exemptions are provided (for example the supply of financial services). The term "GST-neutral" describes the situation in which GST paid by a business can be claimed against the GST payable on the business's taxable supplies. A business is "neutral" in regards to the purchase of goods and services if the GST paid does not become a permanent business cost.

In the example you have provided there are two transactions and they are treated separately. It is assumed that both the driver and the ride share provider are registered for GST in the example you have provided.

The first transaction is the invoice for the total fare that the passenger pays. The driver will account for the full amount when they complete their GST return for the period in question. For a \$100 fare including GST the calculation is as follows:

$$\$100 \times 3/23 = \$13.04$$

The second transaction is the calculation and payment of the commission. It is assumed that the 15% commission is calculated on the GST inclusive amount and the amount payable is also GST inclusive. For the \$15 commission paid the GST calculation is as follows:

$$\$15 \times 3/23 = \$1.96$$

The ride share provider will account for the GST on the commission when they complete their GST return for the relevant payment. The driver will claim the commission as an expenses and the GST amount they have paid will be claimed as an input tax credit, which is deducted from the GST payable in the corresponding period.

Thank you for writing. I trust that my comments are of assistance to you.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'A. Donoghue', with a long horizontal flourish extending to the right.

Tony Donoghue
Manager, Commissioner's correspondence