

Case Study - Better practice invoicing for GST-Registered system owners.



Since the Australian Tax Office's ruling on appropriate invoicing practices for environmental certificate creation, many installers have adopted better practices in their GST treatment. This case study aims to clearly describe what better practice looks like for one such installation company, which takes measures to improve its invoicing approach for GST-registered system owners.

This case study is intended to provide an illustration of better practice only. We are neither a taxation nor legal advisor and we have not considered any specific circumstances or business needs. While this case study lays out a general approach that we think makes sense, we'd invite you to sit down with your accountant or business advisor and assess its merit.

Starting with a valid concern

Some installers have described their GST concern with a perfectly valid question:

"OK – I get why the system owner needs to raise an invoice to Green Energy Trading, but how are they going to get paid for it? It'll stay on their system forever..."

The invoice did get paid (by Green Energy Trading) and the money went straight to the installer. The question was: how did both the installer and the system owner account for it? It turns out he was right to be concerned, as his existing invoice process was difficult to account for, and almost impossible to explain. This is what it looked like:

Tax Invoice		
Happy Solar Installers P/L ABN: 12 123 456 789		
Date:	1 May 2017	
To:	Wally's Warehouse 255 Reserve Rodad Amdell Park NSW 2148	
Description of Supply	Tax/GST	Total
Supply and install... solar system.	10%	\$24,000.00
Less STC Discount (160 STCs x \$37.50+GST)	0%	-\$6,600.00
Sub-Total		\$17,400.00
GST		\$2,400.00
Total Price including GST (Payable)		\$19,800.00

This previous format, presents two problems:

- Green Energy Trading can no longer legally accept an invoice from you for the certificates, and
- The system owner has nothing outstanding on the bill to net off against their invoice.

Additionally, we aren't comfortable with describing the STC value as a discount – and neither is the ATO. It's a payment, and it hasn't happened yet, so why indicate that the system owner's obligation is only \$19,800? What if the system owner misunderstands and puts a claim in themselves, or if the certificates are invalidated for some reason? How would the installer mount a convincing claim for the outstanding funds when the invoice declares the amount is a discount?

Ending with a better practice

The installer decided to keep the certificate value out of the right-hand column of their customer's invoice. He made more use of notations, and he didn't let the system owner off the hook until the money was in his pocket. And even then, he kept the door open against possible future action by the regulator. It looked like this:

Tax Invoice		
Happy Solar Installers P/L ABN: 12 123 456 789		
Date:	1 May 2017	
To:	Wally's Warehouse 255 Reserve Rodad Amdell Park NSW 2148	
Description of Supply	Tax/GST	Total
Supply and install... solar system. *A payment of \$6,600.00 will be applied against this invoice on successful creation of STCs (renewable energy certificates) by our agent, Green Energy Trading. The amount payable at this time is: \$19,8000.00 Inc GST. Should Green Energy Trading be unable to create STCs associated with this installation for any reason, the balance of \$6,600 will become due and payable immediately.	10%	\$24,000.00
Sub-Total		\$24,000.00
GST		\$2,400.00
Total Price including GST (Payable)		\$26,400.00

Please note, this is not a pro-forma for your use. It's a talking point for you and your professional advisors to discuss, with reference to your specific circumstances.

The Result

Things just got a whole lot easier...

The installer:

- Had correctly accounted for the full value of the system (for both GST and income purposes)
- Could apply the system owner's payment (\$19,800) and Green Energy Trading's payment (\$6,600) against their invoice without further adjustment
- Had clearly stated the system owner's obligation to assign the certificates to Green Energy Trading, or pay the difference.

The system owner:

- Raised their invoice for \$6,600 inc GST to Green Energy Trading for the STCs
- Could 'net off' the amount they are owed on this invoice against the amount they owe the installer on their invoice
- Understood that they were liable for the full value of the invoice until the certificates were properly created.

We've created this case study to assist your understanding of better practice in GST treatment, and supports installers with their conversations with GST-registered system owners.

Should you have any further questions in relation to GST, please don't hesitate to:

Call us on 03 9805 0700 or 1300 077 784. Also, we encourage you to speak to your professional advisors.

Please note this information is based on the most up-to-date information available to Green Energy Trading and is of a general nature. As such, it may not be appropriate for your specific situation, and you should always seek advice from your taxation specialist. Whilst we make every effort to ensure that the information in this news item is accurate and complete we do not accept any liability arising from any inaccuracy or omission in any of the information herein, or any liability arising in respect of information provided by us or any other person.

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