



## Purchase secondhand goods for your business?

In some situations you may have purchased secondhand goods to use in your business but didn't pay GST on the purchase because the seller wasn't GST registered. The good news is you can still claim a GST credit as long as the goods were located in New Zealand at the time of purchase and the details of your purchase have been recorded.

You may consider buying secondhand items for your business to save money. Even if the seller isn't GST registered you can still make a claim for GST.

Regardless of which accounting basis you use, you must make a payment for the goods before you can claim a GST credit for the purchase.

### Example

Alice purchased a secondhand sewing machine for her dressmaking business. She bought the sewing machine for \$160 at a garage sale. To calculate the GST amount to claim as a credit she would use the following formula:

purchase price x 3 divided by 23 = GST credit that can be claimed

$\$160 \times 3 \text{ divided by } 23 = \$20.86$

Alice can claim this amount on her GST return.

Secondhand goods are commonly defined as goods previously used and paid for by someone else. In the context of GST, secondhand goods **don't** include:

- new goods
- primary produce - unless previously used
- goods supplied under a lease or rental agreement
- livestock
- fine metal, or goods manufactured from fine metal of any degree of purity

### Secondhand goods purchased from an associated person

When purchasing secondhand goods from associated people, the GST credit you can claim is treated differently.

Associated people are:

- companies controlled by the same persons
- companies and persons with a 25% or greater interest in the company
- partnerships and partners in the partnership
- relatives by blood, marriage or adoption, to the second degree (including people in a de-facto relationship)
- trustees of a trust and persons who have benefited or are eligible to benefit under the trust
- settlors of a trust and persons who have benefited or are eligible to benefit under the trust
- trustees and the settlor of a trust, except where the trustee is a charitable or non-profit body
- trustees of two trusts that have a common settlor



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- two persons who are each associated with a third person.

If you purchase secondhand goods from an associated person who is not GST registered, the GST claim is based on the lowest of:

- purchase price
- current market value, or
- GST component (if any) of the original cost of the goods to the supplier.

**Example**

Alex bought a skill saw from his brother Nathan to use in his building business. The current market value of the skill saw is \$350, but Nathan sold it to Alex for \$250. Nathan is not GST registered and doesn't give Alex an invoice. Alex can claim GST on the purchase price (\$250) as he paid less than the current market value (\$350). Alex can claim \$32.60 ( $\$250 \times 3$  divided by 23) as a GST credit on his return.

**Record keeping**

When purchasing secondhand goods you may not always receive a tax invoice. In this case you must record the following:

- name and address of the supplier
- date of the purchase
- description of the goods
- quantity of goods
- price paid.

Contact us if you would like further information or assistance:

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