QUESTION WE'VE BEEN ASKED

QB 18/06
Can a registered person issue a combined tax invoice and credit or debit note?

This question we've been asked (QWBA) is about whether a registered person can issue a combined tax invoice and credit or debit note.

It was the subject of question 13 in "Questions and answers about GST" in Public Information Bulletin *(May 1986), which is cited in several tax commentaries about prompt payment discounts. This QWBA replaces the* Public Information Bulletin *item.*

Key provisions

Sections 24 and 25 of the Goods and Services Tax Act 1985

Key terms

A **tax invoice** is a document the supplier gives to the recipient that shows the details of the goods and services supplied.

A **credit note** is used when the amount payable for a supply is reduced after the tax invoice has been issued.

Similarly, a **debit note** is used when the amount payable for a supply is increased after the tax invoice has been issued.

A **prompt payment discount** is a reduction in the amount payable for the goods and services if the recipient pays the amount before a certain date.

Question

Can a registered person issue a combined tax invoice and credit or debit note?

Answer

A registered person may issue a combined tax invoice and credit or debit note if each relates to different supplies of goods and services. Tax invoices and credit or debit notes may not be combined if they relate to the same supply.

Explanation

1. Tax invoices, credit notes and debit notes perform different functions when goods and services are supplied. Tax invoices are usually issued when goods and services are supplied by a registered person. If some of those goods are subsequently returned, the supply changes, or the price of the goods and services changes after the relevant tax invoice is issued, a credit note or debit note needs to be issued. The question is whether a tax invoice and a credit or debit note can be combined into a single document.

Tax invoices

2. Generally, when a registered person makes a supply they need to issue a tax invoice showing the details of the supply to the recipient. Importantly, the tax invoice sets out the GST charged on the supply. This will be the amount of output tax that the supplier has to account

for and that the recipient of the supply may be able to claim as input tax. Multiple supplies may be combined in a single tax invoice. Section 24 details what must be shown on a tax invoice. Examples of tax invoices are given in Inland Revenue's guides *GST guide: Working with GST* (IR375) (July 2017): 9, and *Smart business: A guide for businesses and non-profit organisations* (IR320) (April 2017): 46–47. Further information on tax invoices can also be found at www.ird.govt.nz/gst/work-out/work-out-records/records-tax/.

Credit and debit notes

3. Supplies can change for various reasons such as when:
   - the supply of goods and services is cancelled;
   - the nature of the supply of goods and services is fundamentally varied or altered;
   - the previously agreed amount payable for the supply of goods and services changes; or
   - some or all of the goods and services supplied are returned to the supplier.

4. If the supplier has provided a tax invoice to the recipient of the supply, and the amount of tax charged (as shown on the tax invoice) is reduced, the supplier must issue a credit note to the recipient. Section 25(3)(a) details what must be shown on the credit note. An example of a credit note is given in Inland Revenue's *GST guide: Working with GST* (IR375) (July 2017): 18. On the other hand, if the amount of tax charged (as shown on the tax invoice) is increased, the supplier must issue a debit note to the recipient. The requirements for a debit note, set out in s 25(3)(b), are essentially the same as those for a credit note. Further information on credit and debit notes can be found at www.ird.govt.nz/gst/work-out/work-out-records/records-credit/ and www.ird.govt.nz/gst/work-out/work-out-records/records-debit/.

5. The obligation to issue a credit or debit note is only triggered if a tax invoice has been provided. This reflects the purpose of credit or debit notes. If aspects of the supply have changed, resulting in the tax charged on the supply being incorrect, then the credit or debit note will indicate any necessary adjustment to the tax charged. Under ss 25(4) and 25(5) respectively, the adjustment is required to be made in the taxable period in which the credit or debit note is issued.

6. If no tax invoice has been issued before the supply changes, then no credit note or debit note can be issued under s 25(3)(a) or (b). However, the supplier still needs to issue a tax invoice under s 24(1). In this case, the tax invoice should contain the details of the changed supply.

Tax invoices and credit or debit notes may be combined

7. While a credit or debit note must be issued *after* a tax invoice for a particular supply, a tax invoice for one supply and a credit or debit note for *another* supply can be in a single document. The relevant statutory provisions do not prohibit a tax invoice or a credit or debit note from containing other particulars besides those specified. Therefore, for separate supplies of goods and services, a tax invoice for one supply and a credit or debit note for another supply may be combined into a single document. This might occur in situations where supplies are invoiced monthly, for example, telephone and electricity supplies.

8. The tax invoice for one month's supply may be combined with a credit or debit note relating to a previous month's supply. A tax invoice, a credit note, and a debit note could all be combined in one document as long as they all related to different supplies.

9. Similarly, a "buyer created" tax invoice for one supply may be combined with a "buyer created" credit or debit note for another supply.

Prompt payment discounts

10. Prompt payment discounts are different. Typically, a prompt payment discount is shown on the tax invoice as a reduction in the amount payable (including GST) if the amount is paid before a certain date. In that case, a lesser amount is stated to be payable.

11. However, a credit note is not required when a recipient of a supply takes advantage of a prompt payment discount offered by the supplier for early payment of the amount payable. Provided the terms of the prompt payment discount are clearly shown on the face of the tax invoice, s 25(3)(e) does not require the supplier to issue a credit note.

Examples

The following examples are included to assist in explaining the application of the law. Sample documents are included to show some of the different ways of setting out the legally required information.

Example 1 - Goods returned after the tax invoice is issued

Jane regularly buys her office supplies from Office to Go. In August 2017, she buys $150.00 (excl. GST) of office supplies and Office to Go issues her with a tax invoice. Jane subsequently returns $15.00 (excl. GST) of damaged goods. When Office to Go invoices Jane for supplies made to her in September 2017, it combines the tax invoice with a credit note for the $15.00 (excl. GST) of damaged goods from August. The document is labelled "Statement of Account/Tax Invoice/Credit Note/Debit Note".

Provided all the requirements of ss 24(3) or 24(4) (whichever applies), and s 25(3)(a) are met, the document is both a tax invoice for the September 2017 supplies and a credit note for the damaged August 2017 supplies that Jane returned.

OFFICE TO GO

2B Pencil Street
Wellington 6011
Phone: (04) 1234 567
E-mail: sales@officetogo.co.nz

Statement of Account/Tax Invoice/Credit Note/Debit Note

To: Jane Smith
123 Main Street
Wellington 6011

GST number : 123-456-789
Date: 2 Oct 2017
Invoice INV1005

Quantity	Description of goods and services	Unit price (excl. GST)	Total (excl. GST)	GST	Total (incl. GST)
100	Blue ballpoint pens	$1.80	$180.00	$27.00	$207.00
2	**Credit:** To reduce INV0904 from $150.00 (excl. GST) to $135.00 (excl. GST) accounting for refund on 2 x electric pencil sharpeners returned due to mechanical defects - unit price of $7.50 (excl. GST)	-$7.50	-$15.00	-$2.25	-$17.25
	Includes GST of:			$24.75	
	Total amount due:				**$189.75**

Example 2 – Goods returned before the tax invoice is issued

Suppose, instead, that Jane returns the damaged goods to Office to Go before it issues a tax invoice for the goods supplied in August 2017. Office to Go wants to know if it can issue a combined tax invoice and credit note at the end of August 2017, with the tax invoice being for $150.00 (excl. GST) of goods initially supplied and the credit note being for the $15.00 (excl. GST) of goods returned. The correct position is for Office to Go to issue a tax invoice showing the goods actually supplied in August 2017 and a total of $135.00 (excl. GST). A tax invoice showing $150.00 (excl. GST) of goods supplied would not reflect the actual supply once Jane has returned the damaged goods.

Example 3 – Combined tax invoice and debit notes

In January 2018, Jane enters into a 12 month contract with Office to Go, under which Office to Go agrees to sell A4 paper to Jane at the discounted price of $5.00 (excl. GST) per ream, on the condition that Jane buys 1,000 or more reams of paper by 31 December 2018. If Jane fails to meet this purchase target, the contract provides that the price for all A4 paper purchased under the contract will be increased to $6.00 (excl. GST) per ream. The contract states that if the price is increased due to the purchase target not being met, Jane will make a further payment, being the difference between the discounted price and the actual price on all A4 paper purchased under the contract.

By 31 December 2018, Jane has failed to meet the purchase target, making only six purchases of A4 paper over the year, totalling 850 reams. The price of these 850 reams of A4 paper therefore increases from $5.00 (excl. GST) to $6.00 (excl. GST) per ream. As a result, Office to Go issues debit notes in relation to the tax invoices issued for the six A4 paper purchases Jane made earlier in the year, and which understated the actual price of A4 paper supplied and the GST charged on those supplies. For convenience, Office to Go combines these debit notes with the tax invoice it issues in January 2019 in respect of other purchases that Jane has made in December 2018.

OFFICE TO GO

2B Pencil Street
Wellington 6011
Phone: (04) 1234 567
E-mail: sales@officetogo.co.nz

Statement of Account/Tax Invoice/Credit Note/Debit Note

To: Jane Smith
123 Main Street
Wellington 6011

GST number: 123-456-789
Date: 7 Jan 2019
Invoice: INV3007

Quantity	Description of goods and services	Unit price (excl. GST)	Total (excl. GST)	GST	Total (incl. GST)
10	Rubbish bins	$15.00	$150.00	$22.50	$172.50
	Includes GST of:			$22.50	
	Total:				**$172.50**

The following debit notes issued because customer ineligible for A4 paper discount applied to purchases between 1/1/2018 and 31/12/2018, having not met agreed purchase target of 1000+ reams by 31/12/2018.

Tax invoice affected	Units supplied	Original price @ $5.00 per unit (excl. GST)	Altered price @ $6.00 per unit (excl. GST)	Price increase (excl. GST)	GST on increase	Total (incl. GST)
INV1034	200	$1,000.00	$1,200.00	$200.00	$30.00	$230.00
INV1130	200	$1,000.00	$1,200.00	$200.00	$30.00	$230.00
INV2405	150	$750.00	$900.00	$150.00	$22.50	$172.50
INV2603	150	$750.00	$900.00	$150.00	$22.50	$172.50
INV2650	100	$500.00	$600.00	$100.00	$15.00	$115.00
INV2702	50	$250.00	$300.00	$50.00	$7.50	$57.50
		GST on price increases:			$127.50	
		Total:				**$977.50**
		Total amount due for payment:				**$1,150.00**

Example 4 – Prompt payment discount

Power To Us Ltd offers customers a 5% prompt payment discount if they pay their monthly bill before the 20th of the following month. The details of the available discount are clearly shown on the tax invoice. John pays the lesser 95% amount owing on his August bill on September 15.

Because the prompt payment discount offer was clearly detailed on the August tax invoice, s 25(3)(e) states that Power To Us Ltd does not have to issue a credit note to John.

References

Subject references

Tax invoices
Credit notes
Debit notes
Prompt payment discounts

Other references

GST guide: Working with GST (IR375) (July 2017): 9, 18
Smart business: A guide for businesses and non-profit organisations (IR320) (April 2017): 46–47

Legislative references

Goods and Services Tax Act 1985 – ss 24 and 25