

THE BASICS OF THE GST

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Contents

1. Commencement
2. Terminology
3. How GST works
4. Administration
5. Special rules
6. Transitional rules
7. Audit and tax avoidance
8. Planning Issues

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1.0 COMMENCEMENT

- **Announced** 02/12/1998
- **Legislation assented** 08/07/1999
- **Commenced** 01/07/2000

- **Transitional provisions introduced**
- **Various taxes abolished**

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1.0 TAXES INTRODUCED

- **Goods and Services Tax** 1/7/2000
- **Luxury Car Tax** 1/7/2000
- **Wine Equalisation Tax** 1/7/2000
- **PAYG System** 1/7/2000
- **ABN rules** 1/7/2000
- **New Contractor rules** 1/7/2000

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2.0 TERMINOLOGY

1. Enterprise
2. Supply
3. Taxable supply
4. Output tax
5. Input tax
6. Creditable purpose
7. GST free
8. Input taxed
9. Financial supplies

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2.1 AN ENTERPRISE

- Carried on continuously or regularly
- Whether or not for profit
- Activities in form of:
 - A business
 - A trade
 - A profession
 - Manufacturing
 - Association or club

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2.1 **AN ENTERPRISE DOES NOT INCLUDE ACTIVITIES:**

- An employee / PAYG earner
- A private recreational pursuit
- Activities of individuals or partners without profit or gain

Contractors will be an enterprise

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2.2 **SUPPLY**

Includes

- Goods & services
- Advice or information
- Real property
- Rights
- Financial supplies
- Unlawful supplies
- Anything that is a supply

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2.3 **TAXABLE SUPPLY**

- Requires
 - Consideration
 - In course of enterprise carried on
 - Connection with Australia
 - Supplier registered or required to be registered
- Is not GST-free or input taxed

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2.4 **OUTPUT TAX**

- **The 10% GST payable on a taxable supply**
 - **Mixed supplies**
 - **Composite supplies**
 - **Margin method supplies**

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2.5 **INPUT TAX**

- GST on inputs used to generate supplies
- Input tax credits claimed on taxable or gst-free supplies
- Must have creditable purpose

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2.6 **CREDITABLE PURPOSE**

Can recover GST on acquisitions made in the course or furtherance of an enterprise which relate to:

- Taxable supplies
- GST-free supplies
- Financial supplies where under financial acquisition threshold
- No creditable purpose where:-
 - Private or domestic
 - Input taxed supplies

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2.7 GST-FREE SUPPLIES

- Limited category of goods & services
- Will not bear any tax burden
- Input credits will be recoverable

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2.7 GST-FREE SUPPLIES

Will include

- Food
- Exported goods
- Government non-commercial charges*
- Health & medical
- Education
- Sale of enterprises as going concerns
- Certain sales of farm land
- Welfare, religious & charitable institutions
- Overseas tourists - airfares etc

* Technically these are not GST-free but are supplies deemed to be made for nil consideration under divisions 81 of the legislation

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2.7 GST-FREE - GOING CONCERNS

- GST-FREE IF
 - Both parties agree in writing in contract
 - It is an enterprise
 - It is carried on up to the date of changeover
 - Purchaser must be registered for GST

NOT A CONCESSION! – IS AN ANTI-AVOIDANCE PROVISION

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2.7 GST-FREE – FARM PROPERTY

GST-FREE IF

- Used for farming in prior 5 years and
 - Intended to be used for farming
 - OR
 - Provided to an associate
 - Intended to be sub-divided
- Beware of residences on farm land**

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2.7 TAXABLE FOOD (NOT GST-FREE)

- Restaurants, hotels etc. & Take away
- Prepared food
- Confectionery
- Savoury snacks
- Bakery products
- Ice cream food
- Biscuit goods

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2.8 INPUT TAXED SUPPLIES

- Not taxed on output
- Pay GST on inputs
- No credit allowed
- Likely to include:
 - Supplies by unregistered persons
 - Financial supplies
 - Certain residential premises
 - Residential rents
 - Precious metals

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2.8 EFFECT OF GST ON RENTAL PROPERTY

RENTAL PROPERTY			
DETAILS	BEFORE 1/7/00 SYSTEM	GST POSITION	DIFFERENCE
RENT RECEIVED	65,000.00	65,000.00	-
EXPENSES INCURRED			
Rates & Taxes	6,000.00	6,000.00	-
Interest	36,000.00	36,000.00	-
Repairs & Maintenance	5,000.00	5,500.00	500.00
Borrowing Costs	2,500.00	2,500.00	-
Agency Commission	4,550.00	5,005.00	455.00
Letting Fees	5,416.67	5,958.34	541.67
		-	-
TOTAL EXPENSES	59,466.67	60,963.34	1,496.67
NET RENTAL INCOME	5,533.33	4,036.66	

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2.9 SUPPLIES THAT ARE "FINANCIAL SUPPLIES"

- Accounts with banks, credit unions etc
- Hire purchase
- Debts security
- Money including foreign currency
- Charge or mortgage
- Securities
- Superannuation Funds
- Derivatives
- Annuity or allocated pension
- Guarantees
- Life insurance
- Incidental supplies

Leases are not financial supplies!!

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3.0 HOW THE GST WORKS

DETAILS	GST REGIME				
	IMPORTER	MANUFACTURER	WHOLESALE	RETAILER	TOTAL
PURCHASES					
Raw Materials	700.00	875.00	1,575.00	1,750.00	700.00
GST Paid	70.00	87.50	157.50	175.00	70.00
Labour	87.50	350.00	87.50	87.50	612.50
Other	43.75	175.00	43.75	43.75	306.25
GST Paid	4.38	17.50	4.38	4.38	30.63
Total Paid	905.63	1,505.00	1,868.13	2,060.63	1,719.38
Less GST Inputs	74.38	105.00	161.88	179.38	100.63
Net Cost	831.25	1,400.00	1,706.25	1,881.25	1,618.75
Profit	43.75	175.00	43.75	525.00	787.50
Sales Price	875.00	1,575.00	1,750.00	2,406.25	2,406.25
GST Collected	87.50	157.50	175.00	240.63	240.63
SALES	962.50	1,732.50	1,925.00	2,646.88	2,646.88
GST RETURN					
GST Outputs	87.50	157.50	175.00	240.63	
GST Inputs	74.38	105.00	161.88	179.38	
GST Paid	13.13	52.50	13.13	61.25	140.00

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3.0 STAGES OF GST COLLECTION

- Customs Department 70.00
- Importer 13.13
- Manufacturer 52.50
- Wholesaler 13.13
- Retailer 61.25
- Other Suppliers (o'heads) 30.62
- **Total 240.63**

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4.0 ADMINISTRATION

1. Registration
2. Returns
3. Refunds
4. Cash versus accruals
5. Invoices & Prices
6. Tax invoices
7. Adjustment Notes
8. Grouping rules

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4.1 REGISTRATION

- ABN – where there is an enterprise
- GST
 - < \$50,000 optional
 - > \$50,000 mandatory
 - (Clubs & associations - \$100,000)
- Taxable / GST-free supplies counted only
- Periods for measuring turnover



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4.2 RETURNS

- < \$20M - quarterly with monthly election
- > \$20M - monthly

Lodge 21 days after month end
Some lodgement concessions

EFT > \$20m

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4.2 BUSINESS ACTIVITY STATEMENT (BAS)

- Lodgement form for all taxes
- Prepared monthly / quarterly / annually
- Incorporates GST, FBT, PAYG, WET, Luxury Car Tax, Income tax, and other withholding taxes.

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4.2 BUSINESS ACTIVITY STATEMENT (BAS)

- GST Output disclosures required
 - Total sales & income and other supplies
 - Exports
 - Other GST-free supplies
 - Input taxed sales & income and other supplies
 - Increasing adjustments

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4.2 BUSINESS ACTIVITY STATEMENT (BAS)

- GST Input disclosures required
 - Capital acquisitions
 - Other Acquisitions
 - Acquisitions for making input taxed supplies
 - Acquisitions with no GST in the price
 - Private use / non deductible acquisitions
 - Decreasing Adjustments

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4.2 BUSINESS ACTIVITY STATEMENT (BAS)

- What these disclosures mean
 - Need for quarterly or monthly accounts
 - Huge match up potential to income tax
 - Year end adjustments
 - Dividends
 - Management fees
 - Interest charges
 - Entries by journal

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4.3 REFUNDS

- Within 14 days of return for period
- EFT - bank account nomination
- Offset against other ATO liabilities
- Interest > 14 days

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4.4 CASH OR ACCRUALS

- > \$1,000,000 - accruals
- < \$1,000,000 option to do on a cash basis
- Issues in making choice
 - Consistency compared to income tax
 - Cash-flow benefit
 - Difficult transactions

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4.4 WHAT DOES CASH MEAN?

- NOT the same as for income tax purposes
 - Need to reconcile bank
 - Cash / cheques in your possession
 - Cheques written & sent
 - CGT versus GST

Care required where cheques are written but not sent to a later point in time

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4.4 ACCRUALS BASIS

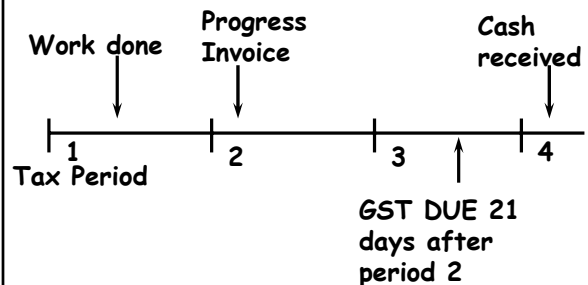
- GST on taxable supply is attributable to the earlier of :
 - Issue of invoice
 - Consideration received

When the business takes on the liability for the goods and services

- Special rules for continuous supplies
- Special transitional rules to consider

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4.4 WHEN MUST YOU REMIT THE GST COLLECTED?



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4.5 PRICES & INVOICES

- **Displayed prices indicate GST**
- **Invoices must be GST inclusive**
- **One supply or many supplies**
- **Guidelines for different price levels**
- **Differentiate**
 - Invoice
 - Tax invoice (must be supplied within 28 days of request by purchaser)

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4.6 TAX INVOICES

- **Specific requirements**
- **De minimis rule**
- **Time restrictions on issue**
- **Date to put on tax invoice**
- **Recipient created tax invoices**
- **Other issues**

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4.6 TAX INVOICE

Provide details of the supplier and purchaser

State it is a tax invoice

Provide address OR ABN of recipient

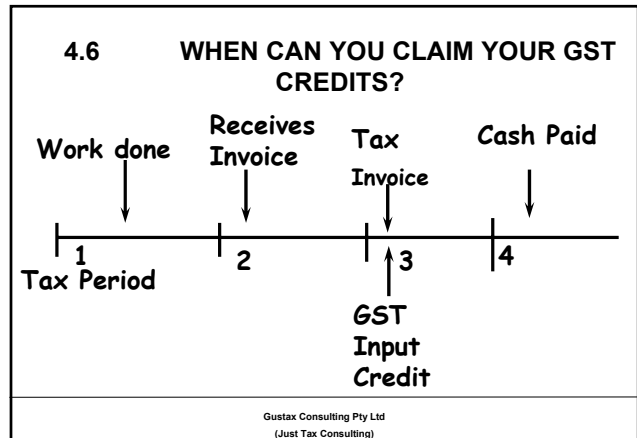
Include your ABN number

Show the date of the supply

Be GST inclusive or split out the GST

Doddie Bros Pty Ltd 666 Up the Creek Street Penridge VIC 3000		TAX INVOICE NO. 123			
A.B.N. 98 123 456 789		Date: July 28, 2000			
To: Sucker Pty Ltd ABN 98 111 111 111 I Don't Know Parade SOMEWHERE Vic 3999					
NO.	DESCRIPTION	ORDER NO.	UNIT COST	QUANTITY	TOTAL
751	60 Widgets	7489	750.00	10	7,500.00
458	60 Cogs	7489	5.00	10	50.00
					-
					-
					-
					-
Sub-total					7,550.00
GST @ 10%					755.00
Total					8,305.00

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4.7 ADJUSTMENT NOTES

- Issue when an adjustment is required to a supply
 - Reduction in price
 - Returns
 - Bad debts
 - Discount
- Only technically required when adjustment arises in a later period
- Disclosure requirements
- De minimis rule applies

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4.8 GROUPING RULES

- Treated as one entity for GST requirements
- Complex membership rules
- Basic requirements for membership
- Advantages
- Disadvantages

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5.0 SOME SPECIAL RULES

1. Non deductible expenses
2. Entertainment
3. Second hand goods
4. Change in creditable purpose
5. Private expenses & acquisitions
6. Subsequent supplies of partially creditable items
7. Gambling supplies
8. Taxis
9. Margin method
10. Sale of commercial property
11. Reverse supplies
12. Holding deposits
13. Agency arrangements
14. Vouchers
15. Insurance
16. Associates

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5.1 NON DEDUCTIBLE EXPENSES

No Input Tax recovery on (unless subject to FBT):-

- Penalties
- Relatives travel expenses
- Maintaining your family
- Recreational club
- Leisure facility or boat expense
- Entertainment expense
- Non-compulsory uniforms
- Non-deductible non-cash business benefits
- Car parking for self employed, partnerships, trusts
- Where MV GST > Depreciation limit

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5.2 ENTERTAINMENT EXPENSES

GENERAL ENTERTAINMENT

- Specific allocation required

MEAL ENTERTAINMENT

- Declarations and adjustments
- Can use different methods
- Can revert to one method
- Need to convert back to one method for full year
- Better to choose and run with one method only.
- Refer also recent announcements

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5.3 SECOND HAND GOODS

Carrying on enterprise selling 2nd hand goods

- >\$300 no input credit until goods sold
- Notional input credit - 1/11 of cost / sales price
- < \$300 notional input on purchase
- Rules do not apply if buy from enterprise
- Only pay on value added
- Pools allowed

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Carrying on enterprise selling 2nd hand goods

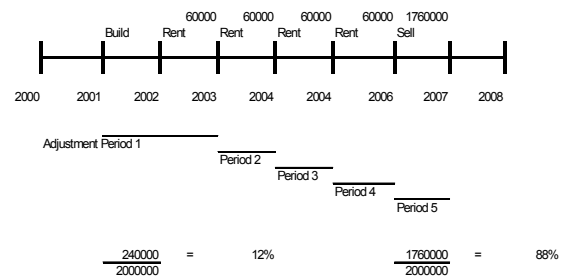
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5.4 CHANGE IN CREDITABLE PURPOSE

- Entitled to proportional input credit if carrying on an enterprise
- Change in creditable purpose rules apply relating to Adjustments
- Adjustments made over time based on the cost of the acquisition
- Significant record keeping requirements

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5.5 PRIVATE EXPENSES & ACQUISITIONS

- Not for an "Attributable Purpose"
- Cannot claim input credits
- Care needed with posting in client books
- Will be an ATO target area.
- Goods for own use - ATO benchmarks
- Depreciation base

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5.6 SUBSEQUENT SUPPLIES OF PARTIALLY CREDITABLE ITEMS

- Not all GST collected is remitted
- Obtain benefit of GST credit based on usage of asset
- Pay GST on full value added
- Claim GST on creditable portion of value used
- Does not apply to some input taxed supplies

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5.7 GAMBLING SUPPLIES

- **Gambling is subject to GST**
- **Separate pool for gambling supplies**
- **Global accounting system**
 - GST on gambling margin
 - Special rules for non-monetary prizes
- **Other issues**

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5.8 TAXIS (Division 144)

- **No GST Registration threshold**
 - **Must register for GST**
 - **Applies to operators**
 - Drive taxis
 - Supplies taxis
 - Limousine services
- Taxi travel means travel that involves transporting passengers, by taxi or limousine, for fares**

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5.9 MARGIN METHOD

- **Can apply to all real property unless acquired as a full taxable supply**
- **Value real property at 30/6/2000 or date registered**
- **Only pay GST on difference between sales price and valuation - 1/11th**
- **Based on cost if acquired after 30/6/00**
- **Important to get valuations**
- **Need to make election in writing by the time of supply**
- **Only applies to real property**

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- **Only applies to real property**

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5.10 PURCHASE & SALE OF REAL PROPERTY

- **GST-free if**
 - Sold as a going concern
- **Input taxed if**
 - Vendor not registered for GST - Householder etc.
 - Only used to generate input taxed supplies
- **Taxable otherwise**
 - Full taxable supply
 - Margin method supply
- **Know what you are buying & selling**

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5.11 REVERSE SUPPLIES

- **Non residents making supplies connected with Australia (Div. 83)**
- **Off-shore supplies other than goods or real property (Div. 84)**
 - Purchaser pays GST
 - GST is 10% of the price
 - Purchase can claim input credit
 - Non need for a tax invoice
 - No GST under Div 84 if full creditable purpose

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5.12 HOLDING DEPOSITS (DIV. 99)

- Deposits held as security
 - No GST when deposit is received
 - GST applies when:-
 - Deposit applied as consideration for transaction
 - Deposit is forfeited
 - GST only applies if the underlying transaction was taxable

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5.13 AGENCY ARRANGEMENTS

- Employees, partners & Associates (Div. 111)
- Agents (Div 153A)
 - Agent acts for you
 - ABN quoting
- Special Agency agreements (Div 153B)
 - Transactions can be treated as separate supplies
 - Written agreement required

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5.14 VOUCHERS

- Monetary vouchers
 - GST event when voucher exchanged
 - No GST if voucher given away
 - Be aware of contra supplies
- Non-monetary vouchers
 - GST event on disposal of voucher
 - Can be multi GST events

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5.15 INSURANCE

- Complex rules
- GST Status connected to premium
- If recover GST on premium
 - No GST on payout
 - Insure for GST excluded value
 - Insurance company accounts for GST

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5.16 SUPPLIES BETWEEN ASSOCIATES

- No issues if both registered and have creditable purpose
- Special rules if:-
 - Supplies made for no consideration
 - Supplies made for inadequate consideration
- Potential exception to rules

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6.0 TRANSITIONAL MEASURES

- 1. Construction Agreements**
- 2. Motor vehicles**
- 3. Statutory insurance schemes**
- 4. Transitional contracts**
- 5. Margin method valuations**

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7.0 AUDITS & TAX AVOIDANCE

1. ATO approach
2. Anti-avoidance provisions
3. Penalties & Interest

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7.1 ATO APPROACH

- Expect an audit at least every 5 years
- Data match up programs
- GST Refunds
- Statistical analysis
- High risk transactions & industries
- Walk in audits
- GST is the entrée into other audits

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7.2 TAX AVOIDANCE

- Scheme or part of a scheme
- Tax benefit
- Intention to get a benefit
- Various criteria
- Result
- Exceptions

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7.2 TAX AVOIDANCE

- Scheme or part of a scheme
- Tax benefit
- Intention to get a benefit
- Various criteria
- Result
- Exceptions

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7.0 GST PLANNING CONSIDERATIONS

- 1. Contracts**
- 2. Registration**
- 3. Cessation of registration**
- 4. Changes in creditable purpose**
- 5. Documentation**
- 6. Elections**

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7.1 CONTRACTS

- **Price versus consideration**
- **GST inclusive or plus GST**
- **Margin method**
- **Going concern**
- **Indemnities**
- **Tax invoices**

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7.2 REGISTRATION CONSIDERATIONS

- **Monthly versus quarterly**
- **Cash versus accruals**
- **Financial acquisitions threshold**
- **Monitor regularly**
- **Grouping rules**
- **Eligibility for RITC**

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7.3 CESSATION OF REGISTRATION

- **Cessation of enterprise**
- **Carrying on an enterprise**
- **Turnover requirements**
- **Pre-GST assets**
- **Adjustment events**

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7.4 CHANGES IN CREDITABLE PURPOSE

- **Time periods to measure**
- **Length of adjustment periods**
- **Cessation of enterprise**
- **Sale of asset**
- **Record keeping**
- **Provision does not apply if Div. 130 applies**

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7.5 DOCUMENTATION ISSUES

- **Obtain all tax invoices**
- **Evidence each BAS**
- **Maintain records**
- **Make all elections in writing**
- **Adjustment events**

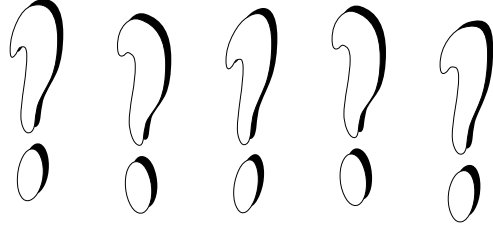
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7.6 ELECTIONS

- In writing
- Timing important
- ATO Fact Sheets
- Relying on rulings
- Incorporate into contracts

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Questions



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