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Law Design Practice
The Treasury
Langton Crescent
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RE: *Tax Laws Amendment (Tax Integrity: GST and Digital Products) Bill 2015 - Extending GST to digital products and other services imported by consumers*

I write to offer the Retail Council's support for the Federal Government's draft bill to amend the *A New Tax System (Goods and Services Tax) Act 1999* to ensure digital products and services (intangibles) supplied to Australian consumers receive equivalent GST treatment to tangible goods whether they are provided by Australian or foreign entities. The Retail Council has argued for several years about the need to improve the integrity of the GST system to ensure all goods and services are subjected to the GST irrespective of whether the supplier is in Australia or overseas.

The *Exposure Draft Explanatory Material* highlights what the Retail Council has been advocating for some time that digital disruption has brought about a significant integrity risk within the tax system and places Australian suppliers at a tax disadvantage relative to foreign suppliers.

This proposal to apply GST to all digital products and services supplied to an Australian consumer is an important step in addressing the tax integrity risk and the tax disadvantage of Australian suppliers, but it must be applied to all goods supplied to Australian consumers regardless of value (not just goods over \$1,000) if the Government is serious about ensuring that the GST revenue base does not steadily erode over time through increasing use of international online shopping and ensuring GST treatment is the same for similar items.

The inequity created by this proposal to apply GST to only services and not goods is demonstrated simply with books. Under the proposed amendments an Australian customer of Amazon will pay GST on the electronic download of an e-book but not pay GST on the purchase of a physical copy of the same title from the same site. That is, Amazon can continue to supply an Australian consumer a book title GST free, delivered direct to the customer, whilst an Australian bookseller on-line or bricks and mortar must collect the GST. To compound the disadvantage, Amazon can supply the Australian consumer a new release faster than an Australian bookseller because of parallel import restrictions imposed on Australian booksellers by the Australian Government.

It is noted in the Draft *Bill* that the responsibility for GST liability that arises under the amendments may be shifted from the supplier to the operator of an electronic distribution service. This will occur where the operator controls any of the key elements of the supply such as delivery, charging or terms and conditions. The reason for this is that it minimises compliance costs as operators are generally better placed to comply.

Regardless of supplier or operator, this means that the GST will be applied at the "point of transaction" on a website and the collection and remittance to the Australian Tax Office by the

supplier/operator having registered with the ATO. This collection method can be equally applied to goods.

A model of business pre-registration for foreign retailers selling to Australian consumers has been proposed by the Retail Council since 2013 following independent research it commissioned from Ernst & Young which showed that both collection and compliance costs are minimised (compared to the costly 'at the border' collection) and a frictionless transaction for both retailer and customer achieved. It is the latter that creates the very strong incentive for retailers to pre-register and customers to transact only with registered retailers. Customers want to receive their online orders without delivery delays and so are more likely to buy from pre-registered retailers.

This Bill and its proposed method of GST collection clears the way for the complete removal of the low value threshold for international online purchases and the consistent treatment of goods sold to Australian consumers. It puts to an end the persistent argument that it is not possible to remove the low value threshold as the cost of collection outweighs revenue. This argument has been based on the current at-the-border customs model, an approach clearly outdated and no longer fit for purpose. Public policy thinking on GST integrity solutions must move beyond focusing on at-the-border systems and instead adopt a technology-driven point-of-sale solution for both intangibles and tangibles.

The 2015/16 Budget papers show Treasury expects to raise \$150 million in 2017/18 and \$200 million in 2018/19. Substantially more revenue could be collected if the point-of-sale proposal was extended to goods. Modelling undertaken by Ernst & Young for the Retail Council shows that by extending the point-of-sale system to goods Treasury can expect to receive an addition \$1.04 billion in 2015/16 and \$1.67 billion by 2020/21 (these figures are after collection costs have been taken into account).

In summary, the Retail Council supports the proposal to extend GST to digital products and services supplied to Australian customers. However, this must be a first step to ensuring the integrity of the GST system and GST must be extended to all imported consumer goods using the same low cost point-of-sale approach.

Thank you for the opportunity to provide our views at such a late stage and we hope the Retail Council's information is of use. Should you have any further questions, please contact our Sydney office on (02) 8823 3515.

Kind Regards



Anna McPhee
Chief Executive Officer