



The Manager
Indirect Tax Unit
Indirect, Philanthropy and Resource Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

31 August 2012

Dear Sir/Madam,

**EXCISE EQUIVALENT GOODS ADMINISTRATION
CONSULTATION PAPER
AUGUST 2012**

Lion welcomes the opportunity to provide this submission to Treasury on the review by the *Legislation and Policy Better Regulation Ministerial Partnership* of the efficiency and effectiveness of the excise equivalents goods (EEGs) administrative framework.

Broadly, Lion is supportive of options for reform that will further reduce costs to business and streamline the administrative and/or legislative framework governing the treatment of excisable goods and EEGs.

Enclosed is Lion's submission which details our proposed options and refers to the relevant sections and/or questions in the consultation paper where appropriate.

If you have any queries, please contact me on (02) 9647-9875.

Yours faithfully

Sonja Icanovski
Senior Tax Manager



EXCISE EQUIVALENT GOODS ADMINISTRATION SUBMISSION BY LION PTY LIMITED

IMPORTATION OF EEGs

- ***How can reporting requirements for EEGs be streamlined or improved to make it easier for you to comply?***

Current Framework

As Lion is both an importer and local manufacturer of alcoholic beverages, it is required to report and account for its excise and customs duty obligations to both the Australian Taxation Office (ATO) and Customs.

Under the current framework, importers of EEG have the option of either paying customs duty upfront or deferring the payment until the time the goods are delivered into home consumption using the Customs warehouse licencing system. For large importers, deferring the payment of customs duty provides a significant cash flow benefit and is the preferred option.

However, where EEG's are also subject to **ad valorem** in addition to the excise equivalent amount, the customs duty calculation becomes more complex. The ad valorem component of this calculation is based on the customs value of the importation (which is generally the price for the goods plus freight and insurance), which can vary from shipment to shipment. This generally results in a different ad valorem amount for each shipment which needs to be tracked until such time the goods are delivered into home consumption and the customs duty is paid. A detailed bond register that has the capability of recording inventory back to the original entry and its calculated duty must be maintained. Most standard inventory systems do not have this functionality.

As a result, importers need to use specialised systems to account for and calculate the total customs duty payable correctly. In Lion's case, a separate system to that used to calculate excise on locally produced goods is maintained.

Proposed reform

The key difference in the tax treatment of local products and EEGs is the ad valorem component. Although this is a minor component of the overall duty payable, it creates a significant administrative burden.

It is therefore **proposed** that importers have the **option** to pay the ad valorem component at the time of Customs clearance, and simply defer the excise equivalent amount. This could be achieved by bringing forward the point of transfer of EEGs to excise control to the point of clearance by Customs i.e. as soon as the EEGs are cleared by Customs, the goods can be moved to an excise licenced warehouse and under excise control. We note that a similar process currently exists where imported goods are used in the manufacture of excisable goods. By lodging a specific entry and paying any relevant ad valorem at the time of the entry, the excise equivalent customs duty is extinguished and the manufactured goods are subject to excise control.



EXCISE EQUIVALENT GOODS ADMINISTRATION SUBMISSION BY LION PTY LIMITED

The above proposal results in the same duty calculation for both local product and EEG's that are excise duty deferred, resulting in reduced complexity and costs of administration. Other benefits include:

- a single streamlined 'excise & customs duty' return for importers who operate on a 'periodic settlement permission' i.e. the one calculation method for all products;
- one excise payment;
- one set of rules for drawbacks, remissions and refunds;
- no requirement for a complicated bond register; and
- removal in the duplication of warehouse licences, periodic settlement permissions (PSPs) and movement permissions.

LICENCES

- *How could the current licensing system be improved?*
- *Is there any duplication between the processes for excise and customs warehouse licences that could be simplified or other suggestions that could improve the process?*

As Lion is both an importer and local manufacturer of alcoholic beverages, it is required to hold both excise and customs licences in relation to the storage of its local products and EEGs under bond. In most cases, such licences relate to the same storage areas. Lion also currently holds multiple storage licences covering different locations.

Given that the regulatory obligations and requirements in relation to excise and customs licences, such as stock control, security, record keeping etc are almost identical, Lion is **proposing** the introduction of a **one warehouse licencing system**. This would mean one warehouse licence covering both locally produced goods and EEGs. This could be achieved by bringing forward the point of excise control (as outlined above) such that only one excise licence is required.

Other benefits of a one warehouse licencing system include:

- no duplication in PSPs and movement permissions i.e. one PSP/movement permission covers local products and EEGs;
- one potential licence fee; and
- one renewal period and renewal date.

Generally, Lion supports a review of the inconsistencies between excise and customs licence renewal periods, renewal dates and fees. We also propose a review of licences held by the same entity but covering multiple locations, and suggest consolidation into one licence.



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RETURNS AND SETTLEMENT PERMISSION

- *What impact do the current requirements and processes for permissions have on your business?*
- *How can these requirements and processes be improved to reduce compliance costs or administrative burden?*

Lion is supportive of a reduction in the frequency of reporting and making payments in relation to excise and customs, particularly under the current framework where Lion is required to lodge two returns on a weekly basis.

Lion **proposes** that all businesses be allowed to pay customs and excise on a monthly basis as this is better aligned with the reporting obligations in relation to other taxes, such as GST and WET. However, any such increase in the reporting period should take into consideration the due date for lodgement, given the volume of transactions in a monthly reporting period for large business. For example, the due date for reporting on a monthly basis might align with the BAS due date to ensure large business has adequate time to prepare the monthly return.

We also **propose** the lodgement of a single return covering both locally produced goods and EEGs in order to further reduce compliance costs. This could be achieved by bringing forward the point of excise control and implementing a one warehouse licence system, as previously outlined in this submission.

REMISSIONS, DRAWBACKS AND REFUNDS

- *Do you see any opportunities to improve the way remissions, drawbacks and refunds are administered?*

Lion supports a consistent treatment between excisable goods and EEGs in relation to entitlements for refunds, remissions and drawbacks. Specifically, the circumstances in which refunds are payable are inconsistent between the two regimes. Lion **proposes** reform of the existing provisions to allow for **all** alcohol products to be eligible for a refund where the goods are returned to any **licensed** premise.



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Further consistency and improvements in administration could be achieved if EEGs are dealt with under the excise system as soon as they are cleared from Customs. Under Lion's proposal (as noted above), all refunds, drawback and remissions would be processed by the ATO and under the excise regime

Currently, there are also inconsistencies within the excise regime itself. For example, the *Excise Regulations 1925* (Excise Regulations) allow for refunds on beer in very limited circumstances and there are no specific references for refunds in relation to spirits or ready to drink (RTD) products. There is a further distinction with the eligibility for a refund between bulk beer and packaged beer.

This inconsistency in the treatment of refunds, remissions, rebates or drawbacks for the different alcohol beverages within the excise regime should be reviewed.

Another inconsistency relates to the time limits allowed for the provision of refunds. Amendments were made to the *Customs Regulations 1926* to align the time limits for refund applications to the Tax Administration Act, set at 4 years. However the Excise Regulations provide a maximum refund period of only 12 months (with the exception for refunds on bulk beer where no time limits are imposed). This should also be addressed as part of the review.