

Software Developers Consultative Group

Submission for the Review of the legal framework for the administration of the GST

The Software Developers Consultative Group has raised a number of issues relating to the GST which are causing significant administrative issues for end users. MYOB has provided a separate submission which covers a number of these topics and other general comments are detailed below. Where specific detail has not been provided, a general description of the issue has been provided.

GST invoices involving WET

See MYOB Submission

Core deposits

This issue specifically relates to companies which do engine rebuilds. It appears that this causes a significant cash flow and administrative burden to businesses in this industry.

GST on imports

Covered by the MYOB submission and another SDCG member comments are: Prepayment of GST results in a -ve figure in your BAS. If the goods are paid for in the current month then -ve BAS is offset. If it occurs over a month boundary then you are left with a -ve amount in your BAS which you cannot report

Upfront GST payments

An example of this is Yellow Pages advertising under which a deferred payment plan is offered. The average end user has no idea how to process such a transaction and in many cases, it is suspected that the GST is not being claimed

HP contracts vs Leases vs Chattel mortgages

No further details provided by SDCG members prior to submission

Private portion on sale of asset subject to GST

No further details provided by SDCG members prior to submission

Notional credit for kilometres

No further details provided by SDCG members prior to submission

Luxury car tax

Covered by MYOB submission

Retentions

Retention handling has been complicated by the GST in that it creates a mixture of taxable and non taxable transactions.

Settlement discounts

The GST needs to be reversed whenever a settlement discount is processed on payments to suppliers or receipts from customers. There is no provision for reporting settlement discounts separately, so this requires generating an inordinate amount of documentation to record it properly.

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Non-customs imports

This issue relates to GST on items which do not physically come through Customs; for example software which is purchased electronically over the Internet. There is a ruling which covers this under which the importer is supposed to raise a sales invoice and an RCTI to offset it, but this is a very cumbersome process. As Internet speeds increase, this type of electronic download will substantially increase in the areas of software, videos, games and other multimedia products.

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GST on pre-payments

It is believed that this not being processed properly in many cases, because it is very misunderstood. For example, booking a function with hotel usually requires a deposit and generally the contract states that the deposit is not subject to GST. The experience is, however, that in most cases, the person raising the deposit invoice charges GST because they simply don't understand the difference between a deposit for a function room and the hire of a function room.

Notional input tax on 2nd hand goods

No further details provided by SDCG members prior to submission

Motor vehicle floor plan transactions

No further details provided by SDCG members prior to submission

Exempt items

The number of items which are not subject to GST seems to be generating more and more mixed invoices and it is these which cause most confusion and take most time in processing. Some examples of this are:

- How would the average end user know why a \$15 late payment fee from Optus is subject to GST, but the same charge from Telstra is not ?
- It is not uncommon for a tax invoice to have 3 categories on it, some subject to GST, some exempt of GST and some which do not appear on the BAS at all. An example of this would be a Telstra bill with the services subject to GST, a late payment fee exempt of GST, and an amount for periodical payment of Yellow Pages advertising which is also free of GST. The latter should not be included in the BAS at all, because the entire amount would have been claimed with the up-front GST in the initial bill
- Hotel invoices are more commonly becoming mixed tax invoices because hotels are starting to detail tips separately as exempt items.

Response to the Review of the Legal Framework for the Administration of the Goods and Services Tax Issues Paper July 2008

Issues:

Interaction of GST and WET

Calculation of GST on WET (Wine Equalisation Tax) plus the base (tax-exclusive price) – tax on a tax – difficult to program to get a compliant tax invoice, especially when combined with items that include GST but not WET are on the same tax invoice.

e.g. purchase of wine + corkscrew

Description	Exclusive Amt	WET (29%)	GST (10%)	WEG (12.9%)	Total
Wine	\$100.00	\$29.00		\$12.90	\$141.90
Corkscrew	\$20.00		\$2.00		\$22.00
	\$120.00	\$29.00	\$2.00	\$12.90	\$163.90

The tax summary section of the invoice appears similar to below:

GST	\$2.00
WEG	\$12.90
WET	\$29.00

Your Order #:	Customer ABN: 45 676 343 223	Freight:	\$0.00 GST
Shipping Date:	Terms: 5% 1st Net 30th	GST:	\$43.90
COMMENT	CODE RATE GST SALE AMOUNT	Total Inc GST:	\$163.90
We appreciate your business.	GST 10% \$2.00 \$20.00	Amount Applied:	\$0.00
	WEG 12.9% \$12.90 \$100.00	Balance Due:	\$163.90
	WET 29% \$29.00 \$100.00		

What needs to show on the invoice to be compliant is:

GST	\$14.90
WET	\$29.00

The calculations and workflow involved to account for Cellar Door Sales, Wine Producer Rebate and Promotional Use are more complex than they need to be.

Calculation & interaction of GST & LCT

The calculations of Luxury Car Tax are overly complex using GST inclusive and GST exclusive values in the calculations.

For the examples below, the following values have been used:

1. Calculate the GST-inclusive excess over the Car Limit
2. Multiply by 10/11 to obtain the GST-exclusive amount of the excess over the Car Limit
3. Multiply the GST-exclusive amount by 33 per cent

The total price paid is \$81311.13 (\$68856.74 + \$6885.67 GST + \$5568.72 LCT).

It would be a lot easier if the tax-exclusive value was used as the base of the tax calculation.

Interactions where GST is calculated on a tax (or vice versa)

The issues are similar to WET & LCT.

There are some state taxes and levies that use the GST inclusive value as a base, and there are others where GST is calculated on the state tax or levy – no specific examples

Accounting for GST on Imports

Main issues are:

- Whereby assessed value for GST purposes is different to the amount actually paid (excluding agent's costs etc.). If X pays AUD \$10000 but the value is assessed as \$11000 on landing, the user needs to enter fictitious entries to calculate the correct GST and report correctly
- Timing differences to payment of original purchase and payment of GST means another area for possible error (user needs to enter transactions for the GST component separately)

Example:

- Enter purchase order May
- Landed/assessed in July (different BAS period)

Deferred GST adds complexity

User needs to record fictitious entries to account for the GST component of the relevant purchases so they can report and account for the GST correctly.

Second Hand Goods

Complex rules on when an input tax credit can be claimed, based on:

- Who the goods are purchased from (if they have an ABN)

- The Value of the goods
- Situations where the sale price is less than the purchase price (maximum credit is based on the sale price, not the higher purchase price)
- Made more complicated if item is part of a set and the components are sold at different times (in different BAS periods)

This seems to be overly complex for little (if any) economic benefit

For a small business owner, it would be very difficult to track.

Inventory Change-Overs

An inventory change over is the situation whereby an old part is handed over to a vendor in exchange for a new or reconditioned part. The old part received by the vendor is then reconditioned to a saleable condition and the process begins all over again.

This is another complication to the second hand goods scenario,

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