

NARGA

National Association of Retail Grocers of Australia Pty Ltd

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Board of Taxation Secretariat
C/- The Treasury
Langton Crescent
PARKES ACT 2600

Email: taxboard@treasury.gov.au

Dear Sir or Madam,

Re: Review of Legal Framework for Administration of the GST

Below please find our comments relating to the GST and the way in which it is administered. We trust you find them useful in your review of the system.

Registration thresholds

Entities with a turnover in excess of \$75,000 pa need to register for GST and, as a consequence, comply with record keeping requirements and regularly complete a BAS.

It is assumed that the threshold has a dual purpose – to remove unnecessary regulatory burdens from smaller entities and to reduce the overall administration costs associated with these entities.

However, the current threshold does not differentiate between low margin and high margin businesses. This means that an entity with a low margin – e.g. \$5,000 of the \$75,000 turnover is treated the same way as an entity that may make \$70,000 out of that same turnover.

In the first instance, the entity would want to recover the approx \$6,363 input tax inherent in the GST paid on supplies as it represents a large amount relative to net income. At the same time, the cost of doing so also represents a relatively high proportion of the potential rebate.

The second entity may be in a better position to forego the recovery of the GST on supplies, as the cost of its recovery would exceed the value of the rebate and, in overall terms it represents a relatively small proportion of total income.

The obvious conclusion is that turnover does not represent a sound basis for an exemption threshold – net margin in dollar terms may be a better measure.

Another consideration is that entities that fall below any set threshold and choose not to register, in effect choose to be input taxed. We suggest that the reason many entities that are eligible for the exemption still choose to register because the potential GST rebate represents a significant proportion of their income. In certain cases these rebates are also important in cash flow terms.

It may be appropriate to allow such entities an exemption from the requirement to complete a BAS and instead claim entitlement to the GST paid on supplies in some other way and/or be considered exempt from GST on supplies via a certification scheme.

We note that the *BAS Easy* proposal for small businesses is for an agreed ratio to be applied to sales in order to claim input tax credits. Whilst such an approach would be welcome we note that it is to be denied to entities that have GST free transactions. It is suggested that such entities could be included in the scheme by ignoring the GST free sales as these do not result in a GST liability.

Use of BAS for other taxes

Whilst it is possible for entities with low turnover to opt for less frequent reporting of GST liabilities, this reduction in compliance burden can be negated by other BAS reporting requirements or payments – e.g. the reporting and payment of withholding tax or PAYG income tax. In the latter case entities that have an annual liability in excess of \$25,000 have to report and pay monthly.

This means that entities that may be exempt from GST reporting GST quarterly have to complete a monthly BAS to meet the PAYG reporting requirement. We suggest that for small entities all reporting and payment requirements be annual but that provision be made to allow such entities to spread payments over the year through instalments paid to the ATO on a voluntary basis – based on an estimate of net annual liability.

BAS information requirements

Information required on the BAS is unnecessarily complex and not needed to ensure GST compliance. The requirement to report export and other GST free sales, for example, is excessive as it does not provide information on GST liability. At a minimum, the export and GST categories can be collapsed for smaller entities.

Also, the requirement to split the reporting of purchases into capital and non-capital is unnecessary, particularly for a smaller entity. Such requirements make it more likely that a small entity would need to seek the help of an accountant – increasing compliance costs to that entity.

We would support the suggestion that BAS reporting be simplified to require only the reporting of GST payable or refundable – by whatever method used to calculate this.

There would appear to be no reason why, at least for a small entity, GST compliance could not be managed on the same basis as other tax compliance (income tax, company tax etc.) where the tax system relies on voluntary compliance and annual reporting. Such an approach would mean that smaller entities would only need to engage an accountant once a year, reducing compliance costs.

Rulings

The greatest degree of confusion relating to the application of GST is in the area of food, particularly where the degree of preparation determines the food's GST status and / or where its status has been derived from previous treatment under sales tax law.

Compliance costs for the retail grocery sector would be reduced substantially through simplification of this area of tax law.

Please feel free to contact me should you have any question.

Yours faithfully,

Gerard van Rijswijk
Senior Policy Advisor