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21 November 2006

Tax Reform
Financial Services and the Treasury Bureau
4/F, Main Wing
Central Government Offices
4 Lower Albert Road
Central, Hong Kong

By email: taxreform@fstb.gov.hk

Dear Sir/ Madam

Submission on the consultation document regarding a goods and services tax for Hong Kong

CPA Australia welcomes the opportunity to provide comments on the Consultation Document 'Broadening the Tax Base Ensuring our Future Prosperity' dealing with the proposed Goods and Services tax for Hong Kong ('the Consultation Document'). As Australia's pre-eminent professional association, representing the diverse interests of more than 108,000 finance, accounting and business advisors including over 9,300 in Hong Kong, we are committed to working with governments and their agencies to ensure current and future economic and social policies foster an environment that facilitates sustainable economic growth.

Please find enclosed our submission which has been developed by CPA Australia Policy and Research Business Unit in Australia in consultation with the GST Taskforce of the Hong Kong China Division. The attached comments and recommendations are made for the purposes of contributing to the GST debate during the public consultation phase and having regard to the interests of the wider community in having a fair and effective tax system. However, in making our submission, we recognise that the decision to introduce a GST rests with the HKSAR Government. Further, the views and recommendations contained in our submission may not necessarily reflect the current views of a majority of our members in Hong Kong.

Further, in preparing this submission, we have not attempted to cover the entire range of issues that are potentially raised in considering of whether to implement a GST. We note that both the 2001 and 2004 reports of the International Monetary Fund (IMF) are extremely thorough in this regard. Rather we have attempted to focus on some of the key issues that would need to be considered.

In summary we make the following recommendations:

A. General recommendations

1. we have noted the government's objectives and agree that a goods and services tax is an appropriate and efficient approach to broadening the tax base. If it is decided that a GST is to be introduced, we recommend a low and single rate of 5%

2. in order to minimise compliance costs, exclusions and exceptions to the general taxing rules would need to be limited

3. the Government provide more information on the nature and cost of the taxpayer education and assistance it proposes to provide in the lead up to implementation of the GST

4. the Inland Revenue Department (IRD) formulate and publish a GST compliance plan in advance of implementation

5. it is preferable for the introduction of a GST to be considered and undertaken in the present favourable economic climate. However taking into account all factors the earliest a GST may be implemented would be three years from the time the government publicly announces its decision

6. if it is introduced, the GST be at a single and low rate;
   - display or shelf price be GST inclusive;
   - the package includes appropriate compensation measures (see further below); and
   - the proposed legislation use the terms GST free and input taxed as the case may be, and not zero rated and exempt

7. the Government and the IRD establish a formal mechanism for communicating with and receiving input from business and professional associations on the development of the GST framework and to consider ongoing administration and interpretation issues

8. the registration threshold be relatively high as proposed in the Consultation Document

9. financial supplies be zero rated

10. if residential property is zero rated for GST, the potential consequential issues regarding different types of residential accommodation be noted

11. gifts and donations be treated as zero rated

12. sale of a going concern be zero rated

13. compensation should be targeted to those most in need through specific payments and not via concessions in the tax base – also see further comments in Part B below

14. the issue of reducing business taxes should be the subject of further policy discussions leading up to agreement for the need for a GST and issues relevant to its implementation

15. generally speaking GSTs, if implemented correctly do not result in the economic disasters many often predict prior to commencement

16. the evidence relating to economic impacts supports our earlier recommendations in favour of a broad based low single rated GST for Hong Kong.

B – Specific recommendations

1. CPA Australia agrees that it is desirable that there be a diversified tax basis that would be potentially less susceptible to external and cyclical economic conditions than the present narrow tax base

2. given the alternatives and considering international trends, we agree that a broad based GST is an appropriate option for broadening and securing the tax base

3. overall CPA Australia is very encouraged to observe that the Consultation Document discusses a model that, if ultimately implemented, is in accord with international best practice of GST system design

4. CPA Australia considers targeted compensation for low income households to offset the increased costs associated with a GST is preferable to providing specific exemptions (e.g. for food, or exemptions on charges for public transport, health care or public schools) or other concessions through the tax system

5. a GST would also provide an opportunity to reduce business taxes. However, more work needs to be done on this proposal to determine if this is the most appropriate outcome. See also our following recommendation, and

6. given a GST, if implemented, is intended to be revenue neutral, the supposed $20b surplus generated from a 5% GST should be returned to residents by way of compensation and also improved government services – public transport, health, education, etc.

If you have any questions regarding the above, please do not hesitate to contact our Senior Tax Counsel– Paul Drum FCPA (Aust.) via our Hong Kong office or via email –

Yours sincerely

(Signed)

DEREK LAI FCPA (Aust.)
President
CPA Australia - Hong Kong China Division

CPA AUSTRALIA

SUBMISSION TO THE HONG KONG FINANCIAL SERVICES AND TREASURY BUREAU ON JULY 2006 REPORT *'BROADENING THE TAX BASE ENSURING OUR FUTURE PROSPERITY'*

November 2006

FOR FURTHER INFORMATION

Contact:
Senior Tax Counsel

SUBMISSION TO THE HONG KONG FINANCIAL SERVICES AND TREASURY BUREAU ON JULY 2006 REPORT *'BROADENING THE TAX BASE ENSURING OUR FUTURE PROSPERITY'*

A. General comments and recommendations

Introduction

1. The attached comments and recommendations are made for the purpose of contributing to the GST debate during the public consultation phase and having regard to the interests of the wider community in having a fair and effective tax system. The submission has been developed by CPA Australia Policy and Research Business Unit in Australia in consultation with the GST Taskforce of the Hong Kong China Division. However, in making our submission, we recognise that the decision to introduce a GST rests with the HKSAR Government. Further, the views and recommendations contained in our submission may not necessarily reflect the current views of a majority of our members in Hong Kong.

2. Further, in preparing this submission, we have not attempted to cover the entire range of issues that are potentially raised in considering of whether to implement a GST. We note that both the 2001 and 2004 reports of the International Monetary Fund (IMF)[1] are extremely thorough in this regard. Rather we have attempted to focus on what we see as some of the key issues.

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[1] H. Zee, J King, B Russell & A Schenk, *Hong Kong SAR policy and administrative issues in introducing a goods and services tax,* report of the International Monetary Fund Fiscal Affairs Department, January 2001

J Zee, G Holland& M Welling, *Hong Kong SAR policy and administrative issues in introducing a goods and services tax: further considerations,* report of the International Monetary Fund Fiscal Affairs Department, May 2004

3. Recommendations are as follows:

Part A

1. We have noted the government's objectives and agree that a goods and services tax is an appropriate and efficient approach to broadening the tax base. If it is decided that a GST is to be introduced, we recommend a low and single rate of 5%

2. in order to minimise compliance costs, exclusions and exceptions to the general taxing rules would need to be limited

3. the Government provide more information on the nature and cost of the taxpayer education and assistance it proposes to provide in the lead up to implementation of the GST

4. the Inland Revenue Department (IRD) formulate and publish a GST compliance plan in advance of implementation

5. it is preferable for the introduction of a GST to be considered and undertaken in the present favourable economic climate. However taking into account all factors the earliest a GST may be implemented would be three years from the time the government publicly announces its decision

6. if it is introduced, the GST be at a single and low rate;
   - display or shelf price be GST inclusive;
   - the package include appropriate compensation measures (see further below); and
   - the proposed legislation use the terms GST free and input taxed as the case may be, and not zero rated and exempt

7. the Government and the IRD establish a formal mechanism for communicating with and receiving input from business and professional associations on the development of the GST framework, and to consider ongoing administration and interpretation issues

8. the registration threshold be relatively high as proposed in the Consultative Document

9. financial supplies be zero rated

10. if residential property is zero rated for GST, the potential consequential issues regarding different types of residential accommodation be noted

11. gifts and donations be treated as zero rated

12. sale of a going concern be zero rated

13. compensation should be targeted to those most in need through specific payments and not via concessions in the tax base – also see further comments in Part B below

14. the issue of reducing business taxes should be the subject of further policy discussions leading up to agreement for the need for a GST and issues relevant to its implementation

15. generally speaking GSTs, if implemented correctly do not result in the economic disasters many often predict prior to commencement

16. the evidence relating to economic impacts supports our earlier recommendations in favour of a broad based low single rated GST for Hong Kong.

B – Specific recommendations

1. CPA Australia agrees that it is desirable that there be a diversified tax basis that would be potentially less susceptible to external and cyclical economic conditions than the present narrow tax base

2. given the alternatives and considering international trends, we agree that a broad based GST is an appropriate option for broadening and securing the tax base

3. overall CPA Australia is very encouraged to observe that the Consultation Document discusses a model that, if ultimately implemented, is in accord with international best practice of GST system design

4. CPA Australia considers targeted compensation for low income households to offset the increased costs associated with a GST is preferable to providing specific exemptions (e.g. for food, or

exemptions on charges for public transport, health care or public schools) or other concessions through the tax system

5. a GST would also provide an opportunity to reduce business taxes. However, more work needs to be done on this proposal to determine if this is the most appropriate outcome. See also our following recommendation, and

6. given a the GST, if implemented is intended to be revenue neutral, the estimated $20b surplus generated from a 5% GST should be returned to residents by way of compensation and also improved government services – public transport, health, education, etc.

General discussion

The policy case for a broad based goods and services tax ('GST') in Hong Kong

4. The case in favour of the introduction of a broad based single rate GST is set out in the Consultation Document as (broadly);

- the existing narrow tax base is vulnerable to economic downturn and outside pressures such as increasing oil prices

- tax revenues are currently subject to unpredictable fluctuation. The government should be able to accurately estimate revenue when budgeting for expenditure

- the ageing population will reduce access to taxation of wages (and potentially increase the need for spending on services)

- there is limited scope to increase the rate of existing taxes. It is necessary for profits tax to remain low to maintain attraction as a regional centre

- alternative base broadening measures (eg a capital gains tax, taxation of dividends and non business interest income) would be complex and more difficult to administer; and

- the narrow tax base offends principles of equity.

5. The above rationale broadly reflect those that favoured the successful adoption of the GST in Singapore in 1994. The contemporary materials produced by the Singapore Government stressed that the GST was preferred for structural efficiency reasons rather than to increase tax collections from the existing narrow tax base[2].

6. The equity arguments favouring the GST are based on the view that it is appropriate for users of Government funded services to bear a portion of their cost through the tax system. The competing equity arguments against the GST as a principal source of revenue (as noted in the Consultation Document) are based on the regressive nature of the tax. It taxes a larger proportion of the income of low income earners than of high income earners. Whilst the actual amounts of tax being paid by high income earners will be more, as a reflection of their capacity to spend, proportionately it is low income earners and the poor who will be worse off, particularly where GST is levied on non discretionary spending such as basic food. However, the IMF recommends, and the Consultation Document agrees, that the regressive impacts of the GST can be minimised via targeted compensation for low income earners. Similar offset measures were adopted in Singapore. CPA Australia supports this approach (and see our comments on compensation later in this paper).

7. We also note that if a GST is introduced it is part of the challenge for the Hong Kong government to ensure that this message is understood and that there is confidence in the government to administer and maintain discretionary spending over a reasonable period.

8. The GST is widely utilised as a revenue source by OECD member countries. In relation to trends in those countries, it has been observed[3] that generally:

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[2] Mrs C Huey Min, GST in Singapore: policy rationale, implementation strategy & technical design, *paper presented at the Asian Development Bank Tax Conference,* October 2004

[3] N Warren, *Tax facts, fiction and reform,* Australian Tax Research Foundation, Sydney 2004

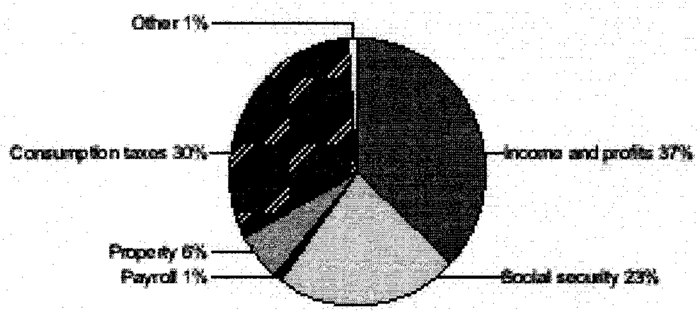
- conceptually complex taxes, such as taxes on company income, have stabilised or declined in importance especially as a result of globalisation;

- taxes on difficult to tax income sources such as income from capital have stabilised or declined where such sources are highly mobile and are readily able to be relocated into low tax jurisdictions; and

- taxes which were once administratively complex have now become simpler to administer due to technological changes and have substantially grown in importance. The VAT (or GST) is the most significant example of such a tax.

9. In 2002, the unweighted average of revenue from consumption taxes in OECD countries was roughly 30%. This comprised one-third taxes on specific goods and services and two-thirds general consumption taxes (such as the VAT or GST).

Figure 1.1. Average tax revenue as a percentage of aggregate taxation, by category of tax



ce: OECD Revenue Statistics 1965-2003.

10. See also Appendicies 5 and 6 which set out OECD countries with VATs/ GSTs. Also note that the following regional countries - China, India, South Korea, Vietnam, Thailand, Singapore, Japan, Indonesia, Cambodia, Philippines, also have GSTs. We also note that Malaysia is currently considering the introduction of a GST.

11. Along with the main factors noted above, some additional arguments in favour of the introduction of the GST to broaden the tax base and smooth revenue flows may include:

- a possible consequential flow-on effect of increasing compliance with existing taxes. There is evidence to suggest that currently compliance levels may be relatively low[4]

- more effective audit targeting and case selection in relation to existing taxes as a result of access by the IRD to improved and more detailed tax records

- the changes required to implement and administer the GST will also provide impetus to generally upgrade systems and performance of the IRD

- introduction of a GST signals to the international community that Hong Kong SAR is committed to remaining a competitive economy for business and an attractive destination for regional headquarters

- a GST can be easily adjusted to increase revenue (via a rate increase) without significant additional compliance or administrative costs

- the GST/VAT is widely understood and accepted by the business community in most other jurisdictions; and

- as a GST is a tax on consumption, it also provides a greater incentive to save and invest rather than consume.

12. Some of the possible tax base broadening approaches that could be considered as an alternative to a GST may include:

- **Increasing taxes on salaries and/ or reducing personal allowances.** Increasing taxes on salaries and/ or reducing personal allowances would bring more salary and wage earners into the income tax net. However this would increase reliance on the existing income tax system. From a revenue perspective it is unlikely that such an outcome would be sufficient, in the longer term given an ageing population.

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[4] H. Zee, J King, B Russell & A Schenk, report of the International Monetary Fund Fiscal Affairs Department, January 2001, p33

- **Turnover taxes.** Turnover taxes have a cascading effect and have higher compliance and administration costs due to difficulties in identifying the appropriate tax impacts through the system. By comparison, a GST is designed to minimise tax-on-tax or cascading tax effects by giving producers a credit for GST on inputs against their GST liability on outputs. It is not perfect in this regard though since some cascading may still occur such as in the case of unregistered enterprises.

- **Wholesale or retail taxes.** A single stage consumption tax such as a wholesale or retail sales tax typically attempts to eliminate tax cascading by enabling businesses to quote a tax registration number to suppliers so that they can purchase goods and services tax free. Experience elsewhere has shown that such a system can be open to abuse, with the propensity for evasion increasing where the tax is imposed at higher rates.

- **Taxes on capital.** Australia has had a capital gains tax since 1985. It is very complex and has high administration and compliance costs. One of the reasons for its introduction was to act as a disincentive for techniques for avoiding the high rates of company and personal income tax at the time by 'recharacterising' revenue transactions as capital. As noted earlier the international trend has been for capital taxes to reduce in importance in recent years. In the case of Hong Kong such a tax would potentially be a significant discouragement for people and business to set up in HK.

- **Taxes on interest income.** Such a tax may be simple and straightforward depending on how it was designed. However, from a wider economic perspective, a tax on consumption (spending) should be preferred over a tax that could have the effect of , discouraging personal savings.

13. Given the various options, we consider that a GST is a relatively effective and efficient approach to better securing the tax base for the future.

14. **Recommendation - we have noted the government's objectives and agree that a goods and services tax is an appropriate and efficient approach to broadening the tax**

base. If it is decided that a GST is to be introduced, we recommend a low and single rate of 5%

Issues and challenges

1. Business compliance costs

15. One area of significant sensitivity in introducing a new tax is the likely cost to business in transitional and ongoing compliance costs. To some extent both the high small business threshold and limited exemptions under the proposed GST may limit compliance costs. As a general rule, GST compliance costs are regressive in nature and fall disproportionately on small business. Therefore, excluding many small businesses from the GST regime should have a significant effect on the overall compliance cost burden, and limiting exemptions also reduces the overall quantum of decisions that need to be made in relation to GST obligations.

16. Compliance costs can be defined as 'those costs incurred by taxpayers, or third parties, such as businesses, in meeting the requirements laid upon them in complying with a given tax structure'[5]. This definition can encompass monetary costs, imputed value of time spent (implicit costs), as well as psychological costs (such as stress and anxiety).

17. The costs that will be of most concern to business in the transition to a GST are those costs that are directly borne by business. However, it should also be noted that wider 'social' compliance costs may also be significant. In this regard, social compliance costs are those incurred by the wider economy, such as the lost production from unrecoverable time spent learning the new system.

18. The effect of compliance cost increases can be mitigated to some extent by 'hidden' benefits inherent in the requirements of the new tax. Such hidden benefits can include managerial benefits to taxpayers such as improved record keeping and business decision making. The value of such benefits can be difficult to quantify, and may depend on the value that each business places on such advantages as improved managerial information. Compliance costs to business can also be

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[5] Tran-Nam, Associate Professor Binh, Glover, Professor John, *The compliance costs of the GST to small business: some preliminary results based on a case study approach,* Paper prepared for the ATAX 6th International Conference On tax Administration, April 2004

reduced to the extent that expenditure on tax compliance can be deducted from other business income for tax purposes. Deductible expenses are regarded as expenses of the government, rather than of taxpayers.

19. Compliance costs associated with the introduction of a new tax can be broken down into transitional and ongoing costs. Transitional costs can typically include:

- value of time spent by business staff to learn about the new tax
- cost of advice from external advisors
- payment for temporary experts to assist in implementation
- payment for external training (including staff travel and accommodation costs)
- acquisition/updating of systems/software
- modification of accounting and business systems
- purchase or relevant tax legislation and publications
- incidental expenses related to updating stationary, telephone, etc.

20. In Australia, the compliance cost burden, particularly ongoing costs, increased due to the decision to zero rate goods and services such as basic foods, health services and education. The zero rating or GST free status for food, particularly as it applies in relation to 'basic' food but not all foods, has meant that there are many businesses that are required to determine whether certain goods are taxable or not. The necessity for this type of decision making adds significantly to costs of compliance for those businesses effected.

21. Recommendation – in order to minimise compliance costs, exclusions and exceptions to the general taxing rules would need to be limited.

2. Administration costs

22. In the context of this paper, we have referred to the costs of Government agencies in transitioning to GST and administering the system as 'administration costs'. In considering the likely benefits from the introduction of a GST in Hong Kong, along with the matters that may need to be considered in allocating administrative resources, it is useful to consider the factors that may have assisted in the successful implementation of the tax in Singapore, which is a comparable jurisdiction in terms of size and positioning as a regional headquarters.

23. In September 2000, the World Bank published a summary paper 'Modernising the Tax Administration in Singapore'[6]. The paper notes that in 1992, the Inland Revenue Authority in Singapore had introduced electronic processing of returns. The move to a system of self assessment and electronic transfer of information in Singapore was credited with improving the efficiency of the administrative process, facilitating 'back end' auditing and freeing staff from unproductive paper shuffling. The modernisation of the tax system in Singapore was a significant undertaking but would have assisted greatly in facilitating the successful introduction of the GST in that country. We note the significantly greater number of transactions that must be processed under a GST, and suggest that the capacity of the IRD computer system in Hong Kong to manage these increased flows of information would need to be reviewed.

24. Another factor which is credited with assisting the acceptance and successful implementation of the GST in Singapore was the significant effort that was made in public education and consultation prior to the introduction of the new tax.

25. Taxpayer education also played a key role in the successful implementation of the GST in Australia. For example, in Australia, in the lead-up (13 August 1999) to the commencement of the GST, the GST Start-Up Assistance Office (GSTSAO) was established within the Department of Treasury to administer the $500 million assistance set aside by the Government to assist Small and Medium Enterprises, the Community sector and Education (SMECEs) institutions to prepare for the GST. The GSTSAO administered these funds in consultation with The New Tax System Advisory Board, the Business Advisory Panel and the Community Sector Advisory Panel. The GST Start-Up

[6] http://www1.worldbank.org/ 12/19/2000

Assistance Office delivered programs until 28 February 2001, and closed on 30 June 2001[7]. See Appendix 6 for an outline of the GSTSAO's extensive educational role.

26. In relation to the Hong Kong proposal, the consultation paper does not deal directly with the anticipated role of the Government (primarily through the IRD) in taxpayer education and assistance, both on transition into a GST environment and ongoing. In this context, the IMF mission of May 2004 found '*a low level of understanding of the impact and operation of a GST within the business community*' and the need for '*a comprehensive staff training plan for the GST administration*'[8].

27. As a minimum, taxpayer education will be needed to increase awareness of the registration requirements of the GST, and to assist in fulfilling the practical ongoing requirements for collection/payment of GST and claiming credits. The 2004 IMF mission report indicates that '*during this phase, many countries have undertaken one-on-one advisory visits to all newly registered businesses, as well as issuing special registration pamphlets, GST guides, and industry specific materials*'[9].

28. We note that the government has already commenced implementing the first stage of the education campaign recommended by the IMF by publishing the Consultative Document, and related brochures/ pamphlets setting out the alternative approaches to raising tax revenue and minimising identified limitations in the current system. But to assist in acceptance of the new tax, the government needs to provide more detail on the nature and cost of the practical assistance that it is able to give taxpayers transitioning into GST similar to the GSTSAO approach adopted in Australia.

29. Of course it is important that records have a high degree of integrity so that the immediate and flow on revenue benefits from the GST introduction can be realised. It should be noted that the administration and taxpayer education costs may be significant and

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[7] See http://www.gststartup.gov.au/

[8] ibid, p6

[9] ibid, p10

that these costs may reduce the revenue benefits of the tax in the early years.

30. These costs and the proposed education requirements for IRD staff and taxpayers should be determined – and a proposed program outlined – as early as possible before the commencement of implementation so that the community can be confident that implementation will be undertaken smoothly, and taxpayers and their advisors can properly consider and plan for their own needs.

31. **Recommendation –the Government provide more information on the nature and cost of the taxpayer education and assistance it proposes to provide in the lead up to implementation of the GST.**

3 Enforcement

32. The case in favour of the GST is often presented on the basis that the tax is difficult to avoid. It is probable that the requirement for business to register with the tax authority, along with the business to business reporting requirements, will support voluntary compliance and better enable the IRD to monitor taxpayer activity. However, it is also worth noting that, in the Australian experience, the informal economy still exists under a GST[10]. For relatively small businesses dealing with end users of products and services (consumers), there is a strong incentive not to charge GST or record transactions. It is possible that non compliance in this sector may not be as significant under the Hong Kong proposal as a consequence of the low rate combined with the relatively high small business exemption threshold, but this remains to be seen.

33. In order to minimise revenue leakage, to manage perceptions of the fairness of the GST and to maximise resources available to assist those taxpayers who are attempting to comply with the new rules, it is necessary that the IRD be able to actively enforce compliance . Even based on an assumed preparedness for implementation of the GST, the assumed revenue leakage based on experiences in other jurisdictions is anticipated to be significant (for example, for the year 2002 – 03, UK Customs and Excise concluded that around 15.7% of the theoretical VAT tax base for the UK was not collected)[11].

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[10] Warren, ibid

[11] OECD, Consumption tax trends, VAT/GST and excise rate trends and administration issues, OECD publishing, 2004

Relevantly, in relation to the capacity of the HK customs service to monitor and enforce compliance for imports, the 2001 IMF report states that *in the absence of improved border controls and appropriate preparation of importers, the integrity of the GST would be so greatly compromised that implementation of the tax could not sensibly proceed'.*[12]

34. Therefore, it is critical in the implementation process that business can be confident that the associated imposition of compliance costs and short term economic disruption accompanying the introduction of the GST will be ameliorated by the customs and IRD having sufficient capacity to monitor goods, review transactions and conduct appropriately targeted audits where necessary to ensure compliance.

35. **Recommendation –the IRD formulate and publish a GST compliance plan in advance of implementation.**

4. Timing

36. The Consultation Document notes that the current proposal for GST has been developed in an environment of relative economic stability where it is possible to provide a long 'lead time' for the new rules to be considered and to take effect, and where the Government is able to make the introduction of the new tax revenue neutral.

37. If a GST is introduced, we also consider it appropriate for a lead-time of at least 12 months, or even longer, to be allowed between the passing of the legislation and the implementation of the GST, to provide adequate time for all the necessary administrative arrangements to be put into place. This would seem to suggest that at the earliest a GST could be effectively introduced would be 2009, and perhaps even 2010.

38. CPA Australia strongly supports the arguments favouring the consideration of a GST regime now, rather than potentially in a future climate of economic downturn where the new tax would be necessary to raise revenue, and therefore may have to be considered and introduced in a less comprehensive manner.

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[12] ibid, p32

39. **Recommendation – it is preferable for the introduction of a GST to be considered and undertaken in the present favourable economic climate. However taking into account all factors the earliest a GST may be implemented would be three years from the time the government publicly announces its decision.**

5. Design features

40. Based on international experience, the following is an outline of the key design features we believe should be embraced as part of a proposed GST in Hong Kong. As per our recommendation at paragraph 19 above, we note that by limiting the exemptions available under the proposal, the decisions to be made from an implementation and application perspective under the Consultation Document are significantly reduced when compared to other systems (for example as enacted in Australia);

- the GST should be broadly based and apply at a single rate to make it simpler for taxpayers, particularly small business, as well as efficient and equitable. This is consistent with the proposal outlined in the Consultation Document
- the rate should be relatively low so as not to have a long term negative impact on economic growth
- the rate should preferably be one that is arithmetically easy to calculate to minimise compliance costs for taxpayers– the Consultation Document proposes a single low rate of not more than 5%
- the display or shelf price of items should be the GST inclusive price – we understand this is the preferred model for Hong Kong. This is a feature we view as very important in Australia for ease of implementation, to enhance transparency and for ongoing acceptance of the GST, and therefore we are supportive of the same approach for Hong Kong; and
- low-income earners should be protected from the impact of a GST via an appropriate compensation package in preference to concessions embodied in the tax system, as

the latter will tend to make the system unduly complex. We note that the Consultation Document proposes significant compensation measures, including reduced tax rates for all taxpayers, payment of a one-off supplement to fully compensate households for the price effects of the GST, an annual GST cash allowance of $2,000 for low-income households together with across-the-board annual GST credits to be used against rates, water and sewage charges for an initial 5-year period and subject to review after that. However we can make no comment on whether the proposed compensation as discussed in the Consultation document will be sufficient.

41. Another matter that we consider important to note is in relation to the terminology used in Australia –which is in contrast to the HK proposal. In Australia the terms 'input taxed' and 'GST free' are used to denote non-taxable supplies, where:

- input taxed supplies are those where the supplier is not required to charge GST on the particular supplies but cannot claim GST on the relevant business inputs, and
- GST free supplies being those where GST is not required to be charged but the supplier is still able to claim input-tax credits on the relevant business inputs.

42. Rather than the terms 'exempt' and 'zero rated' as proposed in the Consultation Document, we submit that, although the terminology used in the Australian GST legislation is not universally used, it is in our view more meaningful to taxpayers generally, particularly in respect to input taxed supplies, since to imply that such supplies are exempt from GST may lead to confusion.

43. Recommendations
– if it is introduced, the GST be at a low, single rate
- display or shelf price be GST inclusive
- the package includes appropriate compensation measures; and
- the proposed legislation use the terms GST free and input taxed as the case may be, and not zero rated and exempt.

6 Scope and charge

44. It is proposed in the Consultation Document that any taxable person who carries on a taxable activity that generates a turnover of $HK5 million or more will be required to register for GST. The Consultative Document states that this limits registrations to 65,000 potential registrants. However as in Australia many others may choose to voluntarily register so they can claim their input tax credits.

45. By way of comparison, in Australia the requirement to register for GST applies to any person carrying on an enterprise which is specifically defined in the GST legislation. While the most common form of enterprise is a business, an enterprise for GST purposes is defined more widely to include the following:

- any activities in the form of a business, trade, profession, vocation or calling
- any activities done in the form of one-off ventures in the nature of trade
- leasing, licensing or granting interests in properties, if this is done on a regular or continuous basis
- activities of bodies that are eligible recipients of tax-deductible gifts (eg. charitable or religious institutions)
- activities of a trustee/manager of a complying superannuation fund, and
- activities of government bodies.

46. This approach was designed to ensure that the GST applied to certain activities and organisations that would not otherwise be covered if the tax was limited in its application to business or business activities only. It probably also reflected the difficulties in the Australian environment of determining precisely whether a business is being carried on in some circumstances given that the term 'business' is not defined in legislation, but instead falls to be determined under case law.

47. Some other design and implementation issues that would need to be addressed during the development phase may include:

- 'grouping' rules may need to be developed to deal with related entities and branches

- in accounting for GST, whether businesses can base their GST liability on existing business records, and whether these are sufficiently robust that the government can be confident that they give a true reflection of the correct GST liability

- how the IRD will communicate with taxpayers on an ongoing basis in relation to its interpretation of contentious issues or to provide guidance where the appropriate treatment is unclear. In Australia, the Commissioner of Taxation regularly issues GST specific formal rulings and determinations which are considered by a panel of GST experts prior to publication, and

- what appeal and/or review mechanism will be provided in circumstances where taxpayers disagree with the IRD as to the correct interpretation of the law?

48. Recommendation –the Government and the IRD establish a formal mechanism for communicating with and receiving input from business and professional associations on the development of the GST framework and to consider ongoing administration and interpretation issues.

7 The small business threshold

49. The limitation of possible exemptions (whether a particular supply is taxable, exempt or zero rated) would simplify administration and compliance.

50. Similarly, the relatively high compulsory registration threshold could well result in smaller businesses that might not be able to comply with the necessary accounting requirements remaining outside of the GST arrangements. To the extent that such small businesses make supplies to consumers, the result of being outside of the GST system should only result in a loss of revenue from the value that those small businesses add to goods and services, since they will be denied refunds of input tax.

51. However, as was sometimes the case in Australia, to the extent that small businesses deal with larger (GST registered) businesses, those larger businesses could pressure their smaller suppliers to register voluntarily as a means of 'washing' GST out of the cost of goods and services that do come within the scope of GST. In addition, a business otherwise below the threshold may make a large acquisition and decide to become registered in order to claim the input tax credit.

52. It may be necessary to discourage, via enforcement activity, misuse of the exemption threshold where businesses with turnover greater than $5 million attempt to claim the small business exemption by not registering for the GST. This would probably require systematic audit activity such as identification of potentially non compliant businesses and examination of records to ensure eligibility for the exemption. Also in relation to the small business threshold, the requirements for businesses with turnovers that fluctuate above and below the threshold need to be considered. The information and compliance advantages of requiring that once registered, businesses should continue to account for GST regardless of whether their turnover falls above or below the threshold may need to be weighed against the compliance and administrative costs of requiring continuous registration. If business can freely opt in or out of the system, then this could encourage 'one off' registration for the purpose of claiming significant inputs (economic outgoings) without the capacity of the IRD to recover GST payments to the business.

53. **Recommendation –the registration threshold be relatively high as proposed in the Consultation Document.**

8 Treatment of financial services

54. The Consultation Document proposes that supplies of financial services be 'zero rated' so that input credits can be claimed but no GST is payable on supply to an end user. There are a number of advantages to this proposal.

- It would assist in 'washing' GST out of the costs incurred by businesses that are registered for GST
- there would be no 'loss to revenue' in business to business transactions if errors occur at the 'threshold' between financial supplies and taxable supplies because, unlike in

other jurisdictions, under either category GST is refundable on business inputs??

- treating financial supplies as zero rated avoids any need to attempt to tax 'imported services' that are consumed in the course of making financial supplies.

55. By comparison, the treatment of financial services under a VAT was recently considered by the OECD.[13] In that report, the OECD notes the distortionary cascading effects of exempting (rather than zero rating) financial supplies, with the end result being that the effective tax rate paid by consumers is higher than the actual rate. Exempting also creates distortions in decisions about whether to outsource particular activities where the GST paid for outsourced services cannot be fully recovered. These issues have been addressed to some extent (but not completely) in Australia by allowing a fixed recovery rate of input credits. Under the Australian scheme, there are still issues with having to attribute inputs to specific outputs and determining a recovery rate for unattributed inputs. In addition, compliance costs under this arrangement are higher than otherwise. Singapore has also applied a mix of approaches by allowing financial services suppliers to treat exempt supplies as taxable when supplied to taxable persons, and providing simplified mechanisms for determining the recovery rate of input tax.

56. We are not aware of any other jurisdiction going so far as to provide full recovery of input tax credits whilst at the same time zero rating supplies of financial services. Presumably the reason for this relates to revenue. However, we note that the IMF in 2004[14] estimated a relatively modest revenue cost in Hong Kong SAR from adopting this approach. In addition, the OECD reports that recent trends have been for financial service providers to move towards taxable fee based services, since most of their customers are likely to be taxable businesses with the ability to recover all input tax.

57. Having regard to the factors noted above, we agree that the Hong Kong proposal for 'zero rating' financial supplies is an appropriate approach. Potential downsides may include discouraging Hong Kong financial service providers from adopting the transparent fee-based

[13] OECD, Consumption Tax Trends, op cit, chapter 7, Emerging Approaches to a Perennial Problem

[14] ibid, p19

approach in the future and the possible need to target compliance activity to limit fraud.

58. Recommendation –financial supplies be zero rated.

9 Treatment of residential sales and rentals

59. Some possible issues with treating residential sales and rentals as exempt (or input-taxed) include:

- The definition of 'residential'. In Australia a supply of residential premises to the extent that the premises are to be used for residential accommodation is treated similarly to the proposed Hong Kong treatment (other than for new residential premises which are subject to GST). The Australian definition of 'residential premises' has been amended twice and a recent Court decision[15] casts some doubts on the meaning of the expression 'to be used for residential accommodation'

- Treatment of aged care facilities such as retirement villages, nursing homes, aged care hostels - where residents are supplied with goods and services in addition to residential accommodation

- Treatment of hospital care and whether there is a residential rental component in the services provided

- The distinction between residential premises (homes and the like) and 'commercial residential premises' (hotels and the like); and.

- Treatment of 'self contained short term accommodation' – strata titled resort accommodation or strata titled serviced apartments that compete with hotels.

60. We note the proposed "permitted use" approach to identifying residential accommodation for GST purposes, and have assumed that this approach is intended to overcome the sorts of difficulties described above.

[15] Toyama Pty Ltd v Landmark Building Developments Pty Ltd, 2006 ATC 4160, 62 ATR 73, [2006] NSWSC 83

61. **Recommendation – If residential property is zero rated for GST, that the above potential consequential issues regarding different types of residential accommodation under Australia's hybrid approach be noted.**

10 Gifts and donations

62. The proposed treatment of gifts and donations appears to differ from the treatment in Australia in that whilst gifts of money would be excluded because no taxable supply had occurred, gifts of goods or services (other than to charities) would be deemed to be taxable supplies made at market value. This treatment seems to give rise to a number of practical difficulties and in our view, it would be preferable to simply treat gifts as zero rated i.e. input credits could be claimed. Requiring GST based on a deemed market value could lead to practical difficulties (in establishing correct market value) and would be difficult to enforce.

63. **Recommendation –gifts and donations be treated as zero rated.**

11 Treatment of a 'going concern'

64. Consideration could also be given to zero rating a 'supply of a going concern':

- The rationale of avoiding cash flow impacts that has been adopted in relation to deferral of GST on imports also applies to a supply of a going concern
- The suggestion that stamp duty is to apply on the GST-exclusive value of taxable supplies has the result that there are no adverse stamp duty impacts if it was decided to treat a supply of a going concern as zero rated
- Zero rating of a supply of a going concern may also guard against tax avoidance where a supplier receives a large GST payment on the sale of a business in circumstances where that supplier intends leaving the jurisdiction.

65. In Australia, the sale of a going concern is treated as zero rated (or GST free) if the following conditions are satisfied:

- the buyer is registered for GST or is required to be registered;
- the sale is made in return for some kind of payment
- the seller and buyer agree in writing, on or before the sale, that the business is a going concern
- the business is carried on by the seller up to the date of sale, and
- under the agreement, the seller provides the buyer with all things necessary for the continued operation of the business.

66. Whilst it is not necessary that the entire business be sold in order for the sale to be treated as a going concern, it is necessary that the assets should by themselves be sufficient to constitute an entire business.

67. Recommendation – sale of a going concern should be zero rated.

12 Transitional issues

68. The transitional rules seems to be fairly straightforward for ordinary contractual supplies spanning the implementation period, and we have nothing to add in this regard at this time.

69. However as stated earlier regarding a new proposed timeline for implementation it would seem appropriate that the earliest a GST could now be implemented would be 2009.

13 Targeted compensation

70. It is imperative that under the proposal, low income earners and welfare recipients in particular be sheltered from the immediate adverse impacts of the GST.

71. Other groups that may need assistance include self-funded retirees and families.

72. By way of example, the introduction of the GST in Australia in mid-2000 was accompanied by a range of assistance and compensation measures to ensure that the new measure was essentially a reform of Australia's indirect tax system (and certain other aspects of our tax/transfer system including personal taxes, family benefits and Commonwealth/State relations) on a broadly revenue neutral basis.

73. In particular, the following compensation measures were introduced:

- moderate personal income tax cuts
- increases in government pensions
- a Senior Australians tax offset for self funded retirees; and
- increases in a range of family allowances and payments.

74. The price impact of the proposed Hong Kong GST may differ from Australia's experience given that it is not replacing any existing indirect taxes and is being imposed at the lower rate of 5%. On the other hand, the proposal for the GST and other associated changes in Hong Kong to be achieved on a broadly revenue neutral basis may mean that the Hong Kong experience will not be dissimilar to that in Australia so long as monetary and other related policies are targeted to this end. We understand that this is the objective of the Hong Kong authorities.

75. Nevertheless, as noted above, notwithstanding such a likely short term impact on inflation, a broad based consumption tax such as GST is generally recognised as likely to have a regressive impact on income distribution and thus should be accompanied by appropriate compensatory measures for the most vulnerable groups. This would appear to be particularly necessary in Hong Kong given that the income tax system already favours higher income earners.

76. The observation in the Consultation Document regarding overseas experience with GST relief measures is consistent with the Australian experience as noted above. Accordingly, the broad thrust of the relief measures being proposed in the Consultation Document seem appropriate and consistent with measures adopted in other jurisdictions including Australia, having regard to the particular nature of the Hong Kong tax/transfer system.

77. The only aspects of the proposed measures that we would query concerns the proposed credits on certain utility charges and rates on residential premises. This approach could result in longer-term pricing distortions for such essential services as well as providing greater benefits for those households/individuals with higher usage of these services. The proposed credit on rates also appears to involve some administrative complexities.

78. Across- the- board cuts in income tax, introduction of a family benefits system or some form of ad hoc or short-term transfer payments/bonuses may, if feasible, be a more effective way to provide relief to Group 2 and 3 households.

79. In considering the impact of assistance to low income earners, it should be borne in mind that targeted welfare based on taxable income can have a distortionary effect by inflicting a significantly higher effective marginal tax rate for every dollar earned above the relevant threshold for assistance. This is because, not only do actual income tax rates increase the more income is earned, but the potential removal of welfare assistance further reduces incentives to increase future actual earnings.

80. However, low income households in the category 'group 2' obviously need to be identified in the first instance on the basis of their income profiles but further refinement on other characteristics (eg. families, older members of the population, self-funded retirees, etc) may be useful from the standpoint of identifying appropriate levels of assistance and/or the channels available to provide such assistance.

81. The level of assistance and the means of providing it also need to have regard to the general community's views on such issues and the administrative capacity available to deliver the measures adopted.

82. Recommendation - compensation should be targeted to those most in need through specific payments and not via concessions in the tax base – also see further comments in Part B below.

14 Impact on existing taxes and charges

83. There is no doubt that the introduction of a tax such as the GST would provide a good opportunity to enhance business competitiveness by reducing taxes on business. In Australia the introduction of the GST was accompanied by a raft of other reforms such as:

- abolition of the multi rate wholesale sales tax system
- abolition of financial institutions duty
- abolition of bank account debits tax
- abolition of bed taxes (NSW only)
- abolition of stamp duty on marketable securities
- a reduction in the company tax rate from 36% to 30% (although this was largely funded by the removal of certain business tax concessions such as accelerated depreciation rates)
- some moderate personal income tax cuts
- many other income tax changes and integrity (anti avoidance) measures, and
- a compensation package for taxpayers such as families, and older Australians including pensioners and self-funded retirees.

84. Many of these measures were implemented in the years subsequent to the commencement of the GST and overall they formed an important part of the ongoing challenge of ensuring Australian business remains competitive.

85. However as Hong Kong currently has one of the lowest headline corporate tax rates in the world, there does not seem to us to be a compelling reason for individuals and families to fund additional tax reductions for business. The paper assumes that the international competitiveness of Hong Kong for business and tourism is directly and significantly referable only to the low taxing nature of the jurisdiction. Whist there is no doubt that this feature

is highly significant, there is no analysis to support the presumption that the further lowering of business taxes would be the most beneficial approach for the government to ensure that this position continues. This matter may be significant in the policy discussions leading up to agreement for the need for a GST and issues relevant to its implementation.

86. **Recommendation The issue of reducing business taxes should be the subject of further policy discussions leading up to agreement for the need for a GST and issues relevant to its implementation.**

Economic and industry sector impacts

1 Pricing impacts

87. There is a general assumption in the Consultation Document that few goods and services would increase in price by the full GST rate. However there may be some doubt whether prices would be contained to this extent;

- there may be instances where the GST in its mature stages can reduce business input costs that can be used to limit the need to pass on a 5% price increase. However, in at least some instances, for example motor vehicle first registration tax, the benefit of any reduction is only achieved when existing equipment is replaced. Until that time the business has not achieved any saving that can be used to lessen the effect of price increases

- the estimated price increases seem to assume that small businesses will not register for GST. If registration rates are higher than expected, overall price increases are likely to be greater

- there are statements that imply that the introduction of GST would result in a one-off increase in prices that would quickly dissipate. While this may be true in the case of an increase in a consumer price index or its equivalent, any price increase applicable to goods or services as a result of the introduction of a GST would be permanent. For example, if a product sold for $100 before GST and increased in price by 5% following the introduction of GST, the price would rise to $105. This would remain the price and form the base for any subsequent price increases, and

- notwithstanding the above observations, overall it has been the experience in Australia that the introduction of the GST did not lead to ongoing inflation or other serious adverse economic consequences.

2 Broader economic impacts

88. In considering the potential impacts to industry and the economy in Hong Kong as a consequence of the introduction of a GST we have drawn from the Australian experience to demonstrate that whilst the expected 'one off' price and inflation increase did occur as predicted, the longer term economic impacts have been minimal.

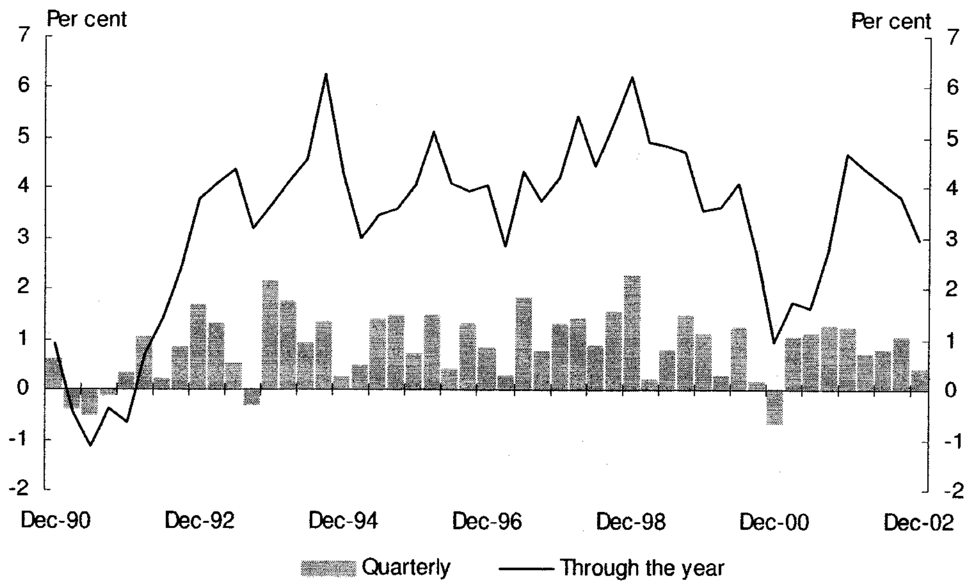
89. When Australia introduced the GST it did so as part of a package known as the New Tax System (NTS). As well as replacing the wholesale sales tax, the NTS package also included a number of other reforms such as removal of a range of State/Territory taxes (see above), a reduction in the company tax rate from 36% to 30%, a round of relatively modest personal tax cuts as well as changes to the taxation of individual's capital gains. Other changes included a range of integrity or anti avoidance measures including action on the alienation of personal services income.

90. Even with a significant reduction in other taxes and a widespread Government funded business and community education campaign, there was still a significant amount of concern over the potential economic impact of the GST.

91. The Australian Government expected the NTS to have both short term and long term effects on the economy. These expectations were realised and are well documented by the Department of the Treasury in their Autumn Economic Round-up paper of 2003. Consumers responded by bringing forward purchases of items predicted to be more expensive and deferred purchases of products that were predicted to decrease in price on commencement of the GST.

92. Whilst the economy did slow following the introduction of the NTS, other factors at that time such as increases in official interest rates, and the end of expenditures associated with the Sydney Olympics may have contributed to the overall weakness in spending. The following table reflects some of the impact (having regard to other factors at work also) of the introduction of the GST on Australia's GDP at the time. As can be seen GDP started to fall around the time the NTS was introduced but rebounded soon thereafter.

Chart 1: Australian GDP growth



Source: ABS Cat. No. 5206.0.

93. The Treasury paper also outlines the impact on other items including:

- residential construction
- household consumption expenditure
- retail sales
- sales of motor vehicles
- labour market and
- pricing and wages.

94. Treasury concluded that the NTS measures had a profound impact on the structure of the tax system and the way in which businesses and consumers interact with that system but [at the time of writing] that 2.5 years after implementation the transitional impacts had largely washed

through. They attributed this outcome to the '*implementation of well designed reform at a time of relatively strong economic fundamentals, complemented by appropriate compensation and a comprehensive education and assistance programme before, during and after the tax changes, as well as the concerted efforts of business...*' However understandably no conclusions could be drawn about the long term impacts at that time.

95. It is difficult to measure the directly attributable longer term impacts/ benefits in an economic sense given everything else going on in the economy. However some six years after the introduction of the NTS, Australia's economy remains very strong although this of course reflects the resources boom in recent years backed by strong growth in the demand for minerals and energy products, particularly from China.

96. Other countries experiences appear to have been similar as documented at para. 206 of the Consultative document.

97. For further information on Australia's and a number of other countries experiences in this regard, see also Appendicies 3 and 4 to this paper.

98. Recommendation: Generally speaking GSTs, if implemented correctly, do not result in the economic disasters many often predict prior to commencement.

3 Specific industry sectors

A Trade, transport and logistics

99. The input tax credit arrangements mean that there are generally no additional costs associated with the operation of the business. However, to the extent that the business deals with unregistered suppliers in this sector, the prices charged by those suppliers might increase to recoup their own unrecovered GST costs and thus could result in higher operating costs for their customers. For this reason it might be expected that larger businesses could pressure smaller businesses in this sector to voluntarily register for GST to avoid these potential cost increases.

100. The transport industry might also experience increased cash flow costs. The GST-inclusive prices that are paid to acquire goods and services from GST registered businesses will increase. Although those increased prices will not result in increased costs because of input tax claims, there is a cash flow effect. That cash flow effect is not offset, as it is in most other industry sectors, through the collection of GST on supplies, where that collection acts as a positive cash flow. Therefore, the industry might require additional cash flow that could increase its operating costs.

B Tourism and hospitality

101. The specific measures that will be taken to reduce the impact of GST in this sector should have the result that there is little overall impact. However, to the extent that businesses deal with small suppliers who are not registered for GST some costs increases will occur.

102. Most countries also have a tourist refund scheme – see Appendix 7 for an outline of the Australian Model. The Proposed Hong Kong model seems to be similar.

C Financial services

103. As discussed earlier in this paper, assuming that financial services are zero rated (GST free) as currently proposed, any cost impact on providers and/or their customers should be minimal.

104. However some operating cost increases could occur to the extent that suppliers deal with small businesses that are not registered for GST.

105. There may also be some increased cash flow costs as a result of GST paid on acquiring goods and services that is not offset by collecting GST on the supply of services.

D Property and construction

Non-residential property

106. Some operating cost increases could occur to the extent that suppliers deal with small businesses that are not registered for GST. This could

act to marginally increase holding costs and might put pressure on prices and rents.

107. The potential availability of a large input tax claim on the purchase of a property might prompt some smaller businesses to voluntarily register for GST.

Residential property

108. The decision to treat sales and rentals of residential property as exempt (input-taxed) supplies will have the result of increasing the cost and (presumably) the price of residential properties. Residential rents will also increase as landlords attempt to recover their increased costs.

109. The Australian experience seems to be that price and rent increases occurred to both new premises (those constructed after the introduction of GST) and existing premises (those constructed before GST) as a result of market forces.

110. The decision to apply stamp duty to the GST-exclusive value of dutiable transactions will presumably not extend to residential properties where there will be an inherent GST factor but not a tax invoice showing GST. This could marginally increase the stamp duty cost, where applicable, to residential property transfers.

General comment

111. The different GST treatment to be applied to residential and non-residential properties could result in some administrative difficulties to the extent that 'mixed use' premises are constructed, that is buildings that are partly residential and partly non-residential. Some costs will easily be identified as relating to the residential or non-residential part of the premises, but the treatment of common costs (lifts, car parks etc) will need to be determined.

112. Recommendation –.the evidence relating to economic impacts supports our earlier recommendations in favour of consideration of a broad based low single rated GST for Hong Kong.

B – Specific questions from each of the chapters in the Consultation Document.

113. Part B of this submission is targeted at addressing the specific questions raised in the Consultation Document to the extent that that our views have not yet been made clear in Part A of this submission.

114. Chapter 1 - CPA Australia agrees that it is desirable that there be a diversified tax basis that would be potentially less susceptible to external and cyclical economic conditions than the present narrow tax base.

115. Chapter 2, 3 and 4 - Given the alternatives and considering international trends, we agree that a broad based GST is an appropriate option for broadening and securing the tax base

116. Chapter 5 - Overall CPA Australia is very encouraged to observe that the Consultation Document discusses a model that, if ultimately implemented, is in accord with international best practice of GST system design and implementation as outlined earlier in this submission.

117. Chapter 6 - CPA Australia considers targeted compensation for low income households to offset the increased costs associated with a GST is preferable to providing specific exemptions (eg for food) or other concessions through the tax system.

118. Chapter 7 - A GST would also provide an opportunity to reduce business taxes. However, more work needs to be done on this proposal t o determine if this is the most appropriate outcome. See also our following recommendation.

119. Chapter 8 - Given the GST, if implemented, is intended to be revenue neutral, the estimated $20b surplus generated from a 5% GST should be returned to residents by way of compensation and also improved government services – public transport, health, education, etc. (see also Recommendation 6 Part A).

120. Chapter 9 - see our comments in Part A of this submission on specific industry impacts.

121. We trust this submission will be useful to the government's review. If you have any questions regarding the above, please do not hesitate to contact our Senior Tax Counsel – Paul Drum FCPA (Aust.) via our Hong Kong office or via email –

Yours sincerely

(Signed)

DEREK LAI FCPA (Aust.)
President
CPA Australia - Hong Kong China Division

APPENDIX 1

Hong Kong GST Proposal

Industry Sector	Hong Kong Proposal	Australian Approach	Variation
Trade, transport and logistics	Exports of goods & services to be zero rated	Exports of goods & services are GST-free	Same treatment
	Export support services to be zero rated	Certain services supplied to an exporter are GST-free	Similar treatment
	International transport & travel to be zero rated	International transport & travel I GST-free	Same treatment
Tourism and hospitality	Supplies to visiting tourists would generally be taxable supplies	Supplies to visiting tourists are generally taxable supplies	Same treatment
	Abolition of Hotel Accommodation Tax	Abolition of accommodation taxes where applicable	Same treatment
	Reduction of 'cascade taxes' on liquor, petroleum etc	Reduction of 'cascade taxes' on liquor, petroleum etc	Same treatment
	GST not payable on sales from duty free stores	GST not payable on sales from duty free stores	Same treatment
	Tourist refund scheme with HK$1,500 transaction limit subject to goods being held in a sealed bag	Tourist refund scheme for accompanied baggage with AUD$300 limit	Similar treatment with similar equivalent threshold
	No refunds for goods or services consumed in Hong Kong	No refunds for goods or services consumed in Australia	Same treatment

Financial services	Supply of financial services to be zero rated	Supply of financial services are input taxed supplies	Fundamental difference
	Financial suppliers entitled to input tax refunds	Financial suppliers generally denied input tax credits (subject to the financial acquisitions threshold) but with reduced input tax credits for the acquisition of certain outsourced services	Hong Kong proposal should result in lower costs associated with the supply of financial services
	Businesses acquiring financial services incur no GST cost	Business acquiring financial services bear an inherent GST cost that cannot be claimed as an input tax credit	Hong Kong proposal should result in lower costs to consumers of financial services

Industry Sector	Hong Kong Proposal	Australian Approach	Variation
Property and construction	Sale or rental of non-residential property to be taxable supplies	Sale or rental of non-residential property is a taxable supply	Same treatment
	Sale or rental of residential property to be exempt (input-taxed) supplies	Sale of vacant residential land and 'new residential premises' is a taxable supply but with the possible application of the margin scheme	Fundamental difference
		Sale of residential premises that are not 'new residential premises' or rental of residential premises is an input taxed supply	Same treatment
	Suppliers of residential premises by way of sale or rent denied input tax credits for all costs	Suppliers of new residential premises by sale entitled to input tax credits	Different treatment of input tax credits as a result of different treatment of supplies
		Suppliers of residential premises by sale of premises that are not new residential premises are denied input tax credits	Same treatment
		Suppliers of residential premises by rental are denied input tax credits	Same treatment
	Stamp duty payable on GST-exclusive consideration for sale	Stamp duty payable on GST-inclusive consideration for sale	Higher Australian value base for calculation of stamp duty

APPENDIX 2

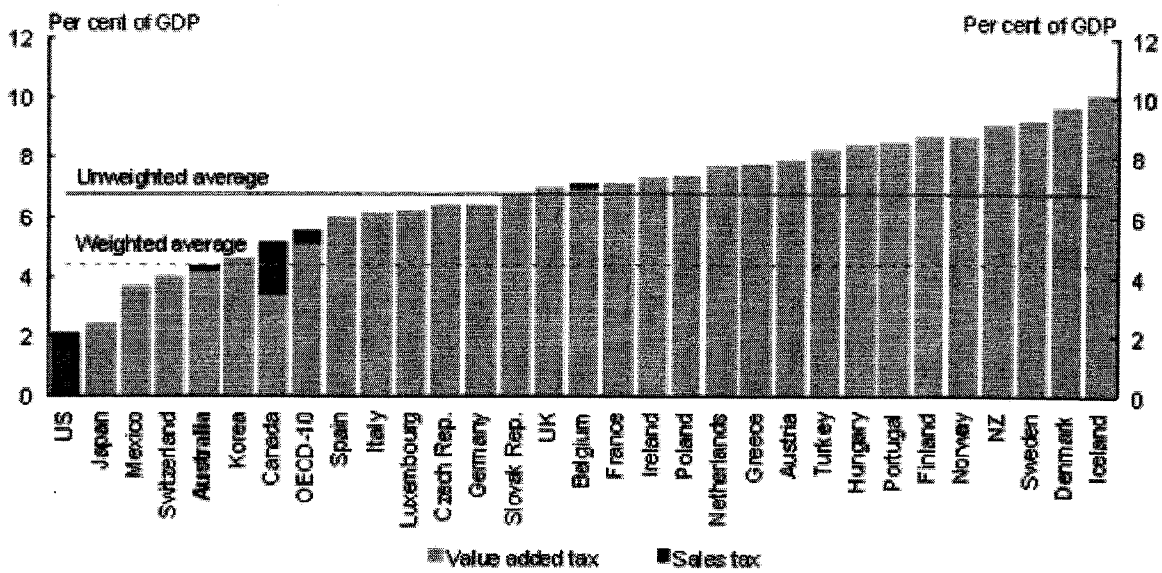
Taxation of goods and services

Australia's tax take from goods and services is broadly in line with that of the OECD-10, although it has a higher reliance on excise and customs duties. Australia's tax rate on general consumption is significantly lower than the average rates across the OECD-30, while its fuel excise duty rates are among the lowest in the OECD-30.

- Australia's reliance on goods and services taxes is the fifth lowest in the OECD-10, at 9.4per cent of GDP, only marginally higher than the OECD-10 average (9.2 per cent).
- Australia's indirect tax mix has a lower reliance on value added and sales taxes (4.3 per cent of GDP). Australia's tax burden is the fifth lowest in the OECD-30 and is significantly lower than the OECD-30 unweighted average (6.8 per cent) and slightly lower than the OECD-30 weighted average (4.4 per cent), (see Chart 13).
- Australia's 10 per cent statutory rate on general consumption is the equal fourth lowest of the OECD-30 and is significantly below the OECD-30 unweighted average of 17.6 per cent (see Chart 14).
- Australia's reliance on excise and customs duty of 3.4 per cent of GDP is the third highest of the OECD-10 and around one percentage point higher than the OECD-10 average.
- Australia's excise duty rate on unleaded petrol of 38.143 cents per litre was the fourth lowest of the OECD-30 as at 1 January 2005 (see Chart 15).

Chart 13: Value added and sales tax burden

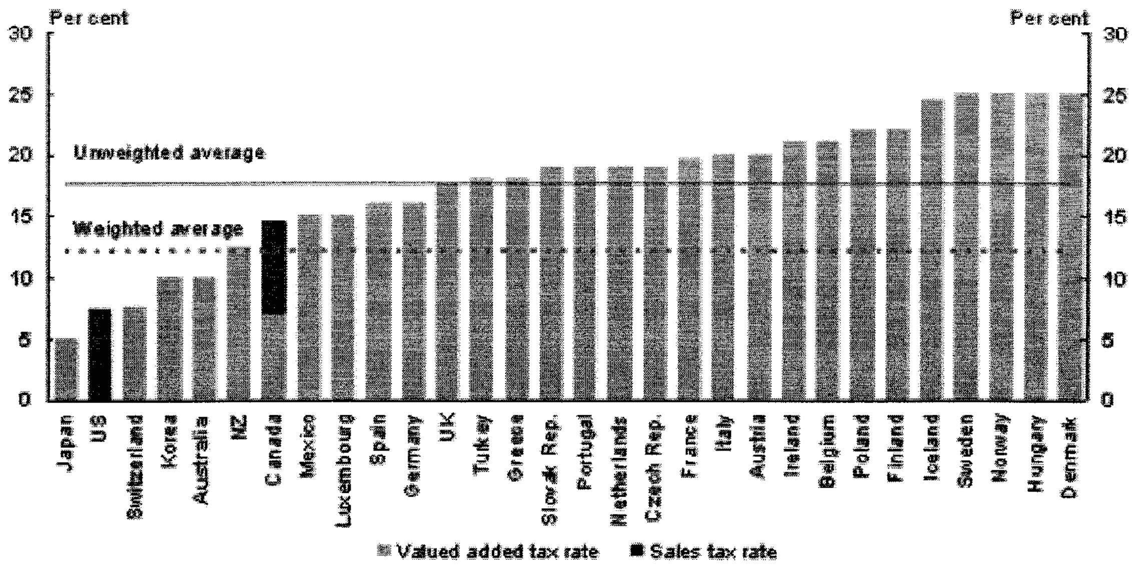
Article I. OECD-30, taxation revenue as a proportion of GDP, ordered by tax burden, 2003



Source: OECD *Revenue Statistics*, 2005.

Chart 14: Value added and sales tax rates

Article II. OECD-30, 2005



Sources: OECD Tax Database; Federation of Tax Administrators website; PricewaterhouseCoopers (2005).

Notes: The VAT rates shown are the standard VAT rates for 2005. As state and local sales tax rates for 2005 were not available, the rate shown for the United States is an average of the maximum combined state and local rates as at 1 July 2004 (7.4 per cent). As at 1 July 2004, maximum combined rates varied across the US States from 4 per cent to 11.5 per cent. The sales tax rate for Canada is an average of the provincial sales tax rates (7.8 per cent). Provincial sales tax rates in Canada range from 7 per cent to 10 per cent.

APPENDIX 3

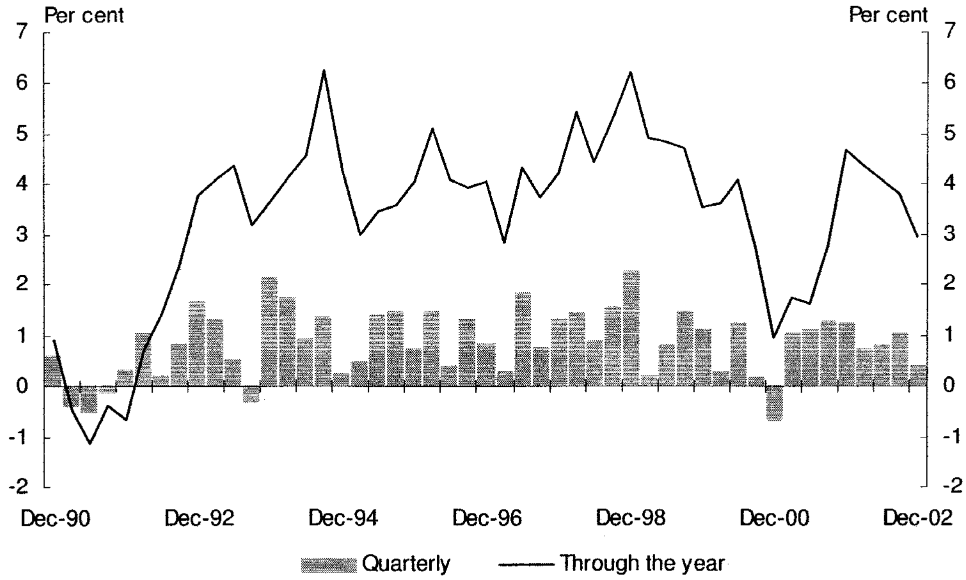
(Findings of the Commonwealth Treasury of Australia – Autumn Economic Roundup 2003)

Preliminary assessment of the impact of The New Tax System in Australia

The aims of 'The New Tax System' (introduced in July 2000) were to comprehensively reform revenue collection, lower personal income taxes, increase family assistance benefits and other government benefits and to create a simpler, fairer and more efficient tax system.

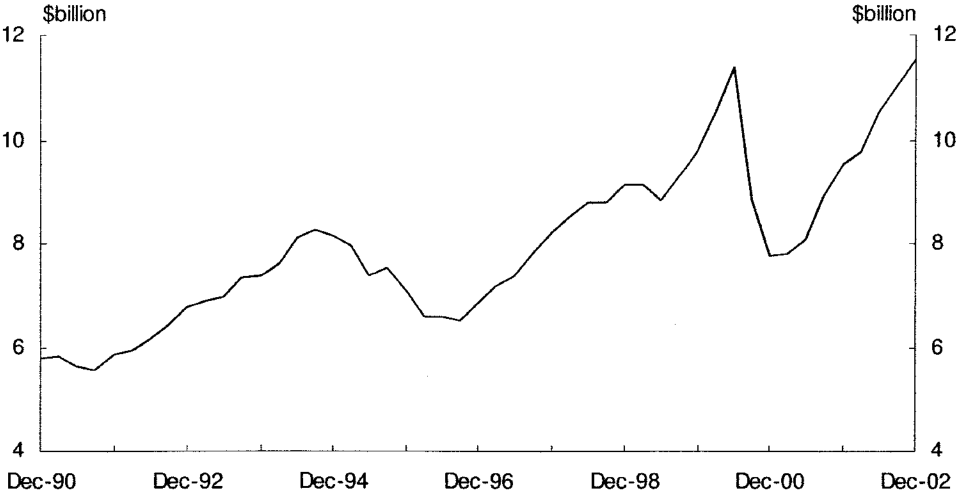
Prior to its introduction, critics of the tax reform package predicted that the changes could have serious adverse effects on the economy including sending the economy into recession,. lifting inflation on an ongoing basis, giving rise to widespread loss of employment, driving businesses into the cash economy, raising business compliance costs substantially and permanently, and giving rise to widespread business bankruptcies. The preliminary assessment conducted in 2003 indicated that these adverse predictions have not been realised, and that the transitional impacts had largely washed out in the first 2 years after implementation.

Chart 1: Australian GDP growth



In the period after the introduction of GST in July 2000 as part of 'the new tax system' ('TNTS') and against a backdrop of global and regional economic weakness), Australia was one of the fastest growing industrialised countries. The temporary slowdown in the second half of 2000, immediately following the introduction of TNTS, followed three years of very strong (year-average) growth of between 4.0 and 5.3 per cent per year. The downturn was concentrated in the residential construction and related manufacturing sectors. Growth rebounded in March 2001 and continued to be solid despite a weak international economy.

Chart 2: Residential construction — total dwelling investment



Source: ABS Cat. No. 5206.0.

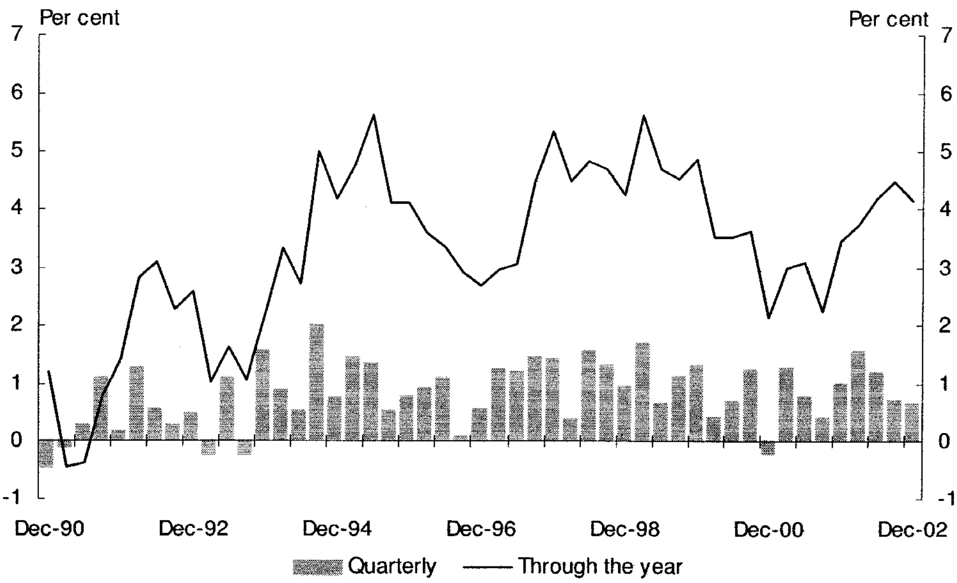
Prior to the introduction of TNTS, dwelling investment increased faster than underlying demand as homebuyers sought to bring-forward their house purchases ahead of 1 July 2000. This led to dwelling investment rising to its highest level in almost 20 years.

The decline in residential construction activity was not confined to new dwelling investment. The alterations and additions component, which comprises around 40 per cent of total dwelling investment, also fell by a record amount in 2000-01 following a sustained period of strong growth over most of the 1990s.

The price of materials used in house building increased by around 5.3 per cent over the period in which dwelling construction boomed ahead of the TNTS introduction, while prices actually fell for several quarters in the period immediately following the introduction of the GST applying from 1 July 2000.

Although the magnitude of the decline and its impact on the dwellings sector and the economy more generally was significant, the housing sector stabilised quickly and returned to strong growth in 2001. This was aided by historically low interest rates and the Government's enhanced First Home Owners' Scheme (introduced in March 2001).

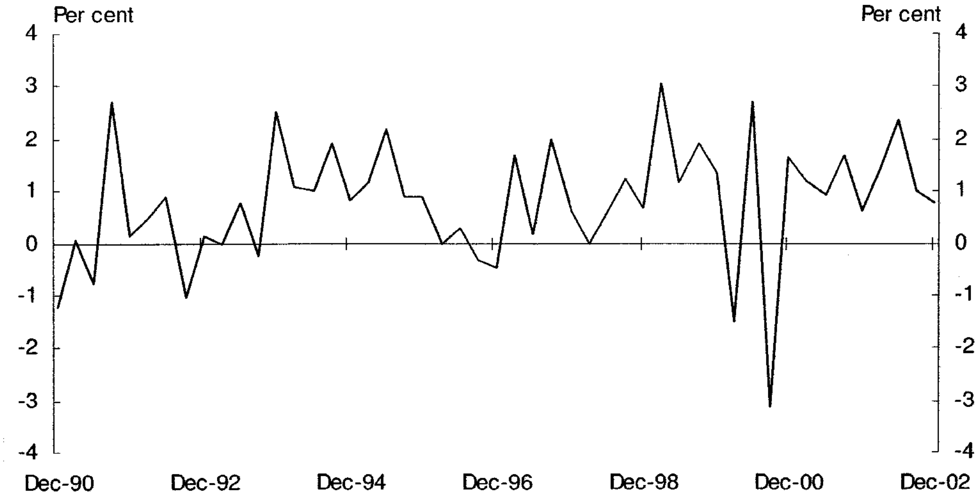
Chart 3: Household consumption expenditure growth



Source: ABS Cat. No. 5206.0.

Household consumption expenditure grew by 3.0 per cent in 2000-01, slowing from the very strong rates of growth recorded in earlier years. This moderation in growth, while concurrent with tax reform, appears not to have been caused by it. Rather, the transitional effects on consumption expenditure related to the implementation of the TNTS package appear to have been broadly offsetting, with a bring-forward of spending on a number of retail trade items largely offset by the deferral of purchases of other items such as passenger motor vehicles. The net effect on consumption growth in 2000-01 appears to have been relatively small and in line with expectations.

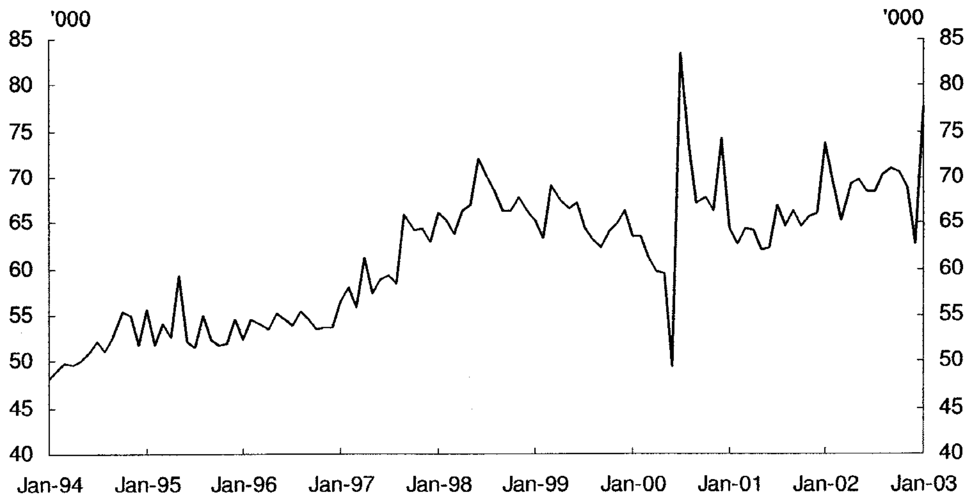
Chart 4: Retail sales growth



Source: ABS Cat. No. 8501.0.

There appears to have been some transitional TNTS-related effects in retail sales. Large swings occurred in department store sales, household goods and clothing sectors in particular — strong growth in the June quarter of 2000 was followed by a sharp decline in the September quarter and a rebound in the December quarter. Expenditure patterns appear to have returned quickly to what could be considered more 'typical' levels.

Chart 5: Sales of new motor vehicles[(a)]



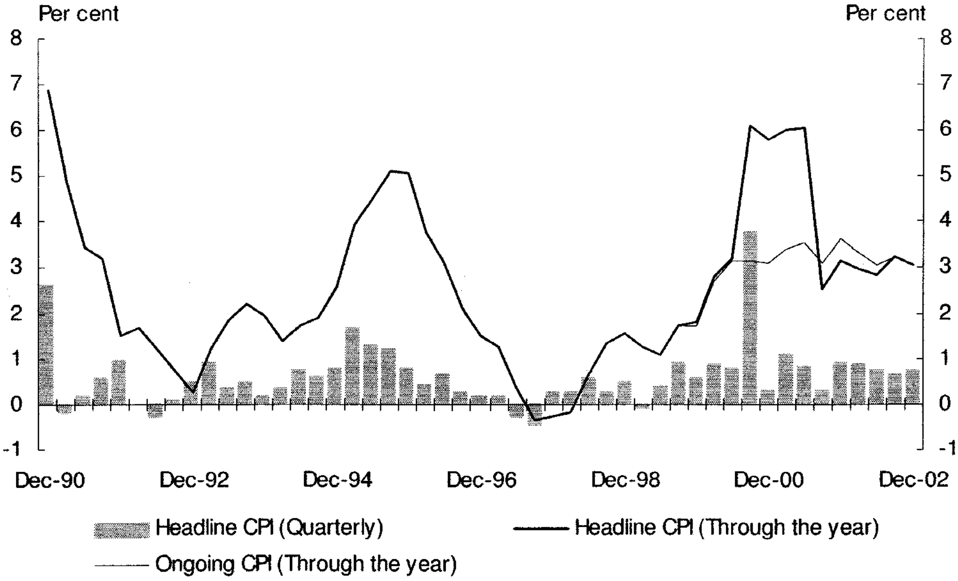
The motor vehicle sector appears to have returned quickly to more typical levels of activity following the implementation of the taxation reforms.

Chart 6: Employment growth and the unemployment rate

Source: ABS Cat. No. 6202.0.

It is likely that this employment effect in the construction sector and related parts of the economy was compounded in late 2000 and into 2001 by the global economic downturn and the uncertainty this added to the economic outlook — firms are likely to have adopted a relatively cautious approach to employing new workers in light of this additional uncertainty. Higher interest rates may also have had an adverse effect on employment growth. Since then, however, year-average employment growth has been solid

Chart 7: Headline and 'ongoing' inflation



Source: ABS Cat. No. 6401.0, Treasury estimates.

The main price effect was recorded in the September quarter 2000, with the CPI rising by 3.7 per cent. TNTS is estimated to have contributed a little less than 3 percentage points to the overall CPI increase in the quarter, significantly lower than the 3¾ percentage points forecast in the 2000-01 Budget. This single 'spike' in the quarterly CPI data confirms that the inflationary impact of the TNTS reforms on prices was essentially once-off in nature and did not become entrenched in inflation outcomes or inflation expectations.

APPENDIX 4

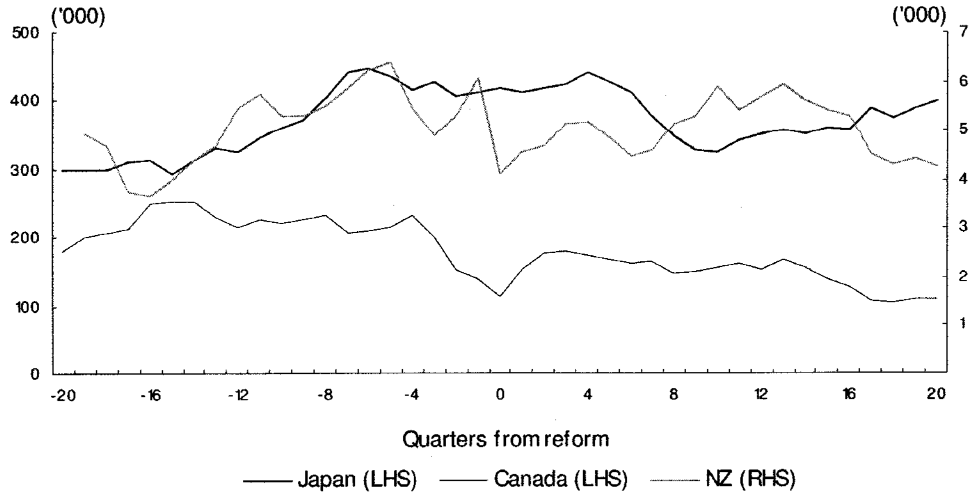
Comparison of impacts in other jurisdictions

An international perspective can provide a useful point of comparison. However, caution should be exercised when drawing specific conclusions as to the implications of overseas experience. With no two economies or tax reforms exactly alike, and circumstances in which reforms are undertaken likely to differ markedly, it is hardly surprising that international experience varies widely between countries.

The international experience indicates that a temporary slowdown in **GDP** growth occurred in each of the four countries under consideration(Japan, New Zealand, Canada and Singapore), following the introduction of major tax reform packages. The quarterly decline was most pronounced in New Zealand and Canada, although these countries were experiencing a period of weakness in economic activity prior to the implementation of tax reform. In Japan and Singapore, however, GDP growth rebounded quickly and strongly.

Residential construction

Chart A2: Residential construction — international



The international experience in relation to residential construction is somewhat mixed, but in all cases considerably less volatile than the Australian experience.

For both Canada and Japan, it is difficult to discern any impact on residential construction associated with the introduction of indirect taxation reforms. In both cases, this is most likely a reflection of the general economic conditions at those times.

Private (household) consumption expenditure

In terms of household expenditure, with the exception of Canada (again most likely reflecting the state of the economy at the time), there was a significant bring forward of consumption expenditure prior to the implementation of the tax reforms followed by a significant unwinding immediately following implementation.

Retail trade

The experience of Singapore, New Zealand and Japan was similar to Australia in relation to retail trade. In Canada the absence of a major bring forward of expenditure might be due to weak economic conditions at the time the GST was introduced.

Motor vehicle purchases

Similar to the Australian experience, motor vehicle purchases in Canada declined prior to the taxation reforms and then increased following the introduction of its GST. However, given the very weak economic conditions in Canada at that time, it is difficult to isolate a specific 'GST-effect' from the broader economic circumstances. In contrast, there does not appear to have been a deferral of motor vehicle purchases ahead of the implementation of the tax changes in New Zealand, Singapore or Japan. This may reflect the different effect of taxation reform on motor vehicle prices in these countries.[16]

Inflation

Internationally, a distinct once-off increase in the CPI is observable in the four countries under consideration — most obviously in the case of New Zealand and

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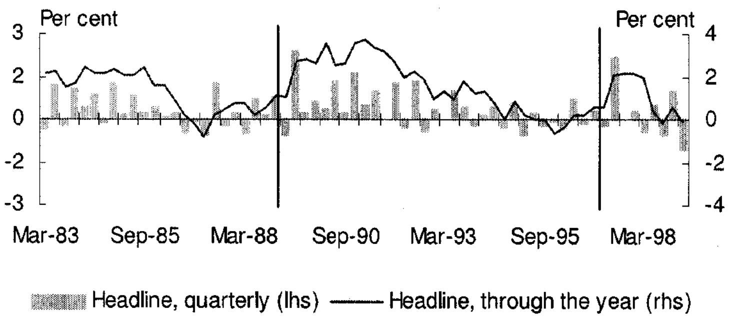
16 In Singapore, the introduction of the GST on motor vehicles was partly offset by a reduction in import duties (from 45 to 41 per cent) and motor vehicle sales were more likely influenced by the number of Certificates of Entitlement (CoE) issued and the quota premium than the taxation changes. According to the Singapore Department of Statistics, from June to October 1994 business demand for motor vehicles declined largely due to the rapid increase in the tender price of the CoE (see Department of Statistics, *Impact of the Introduction of the Goods and Services Tax on Retail Trade*, Singapore, December 1994). In New Zealand, the 30 per cent sales tax on motor vehicles was converted to a 25 per cent excise duty (with the 10 per cent GST applying), resulting in a slight overall increase in taxation of new motor vehicles.

barely discernible in the case of Singapore. In each of these countries, the trend rate of inflation did not accelerate following the implementation of the taxation reforms.

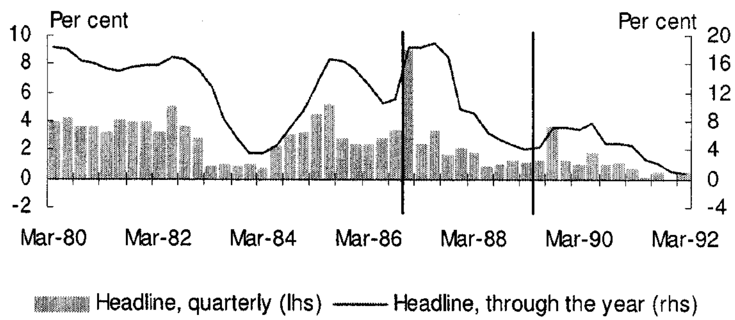
Inflation — international

Japan



GST introduced April 1989 and rate raised April 1997.

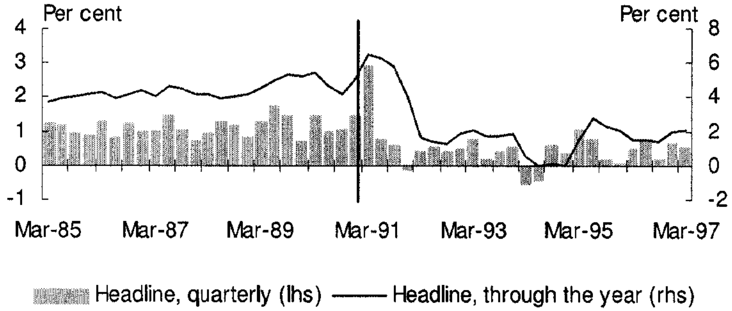
New Zealand



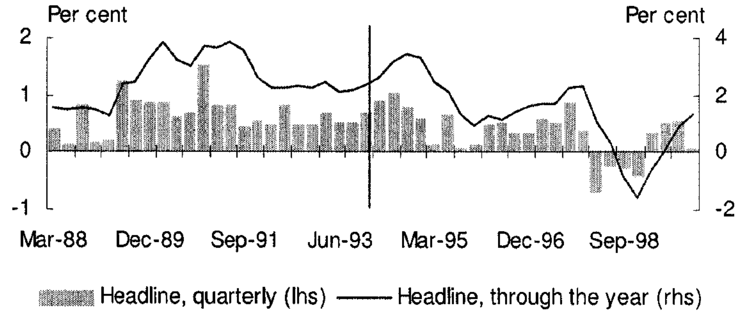
GST introduced October 1986 and rate raised July 1989.

Canada

Singapore



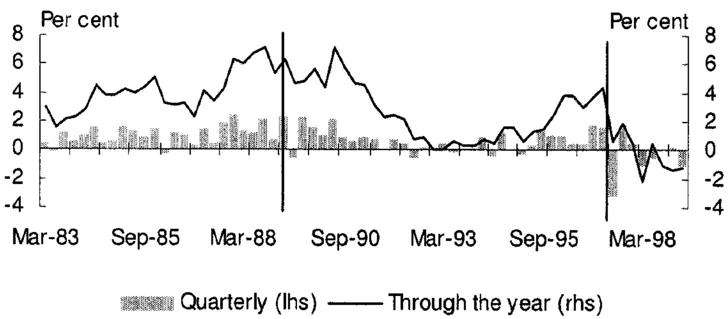
GST introduced January 1991.



GST introduced April 1994.

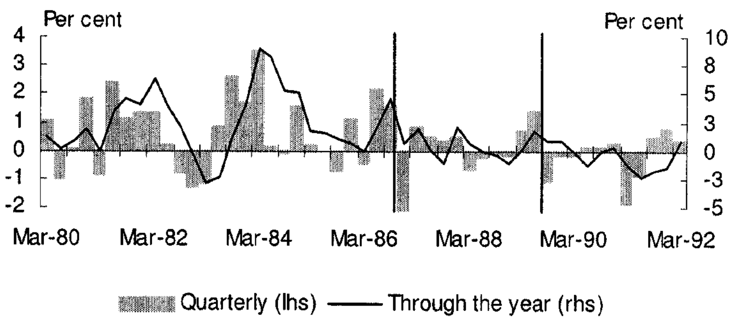
GDP growth — international

Japan



GST introduced April 1989 and rate raised April 1997.

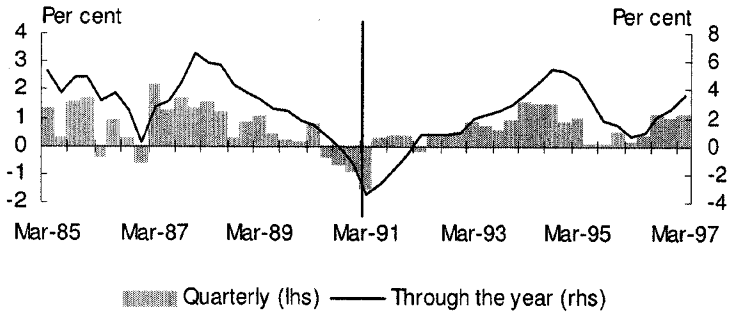
New Zealand



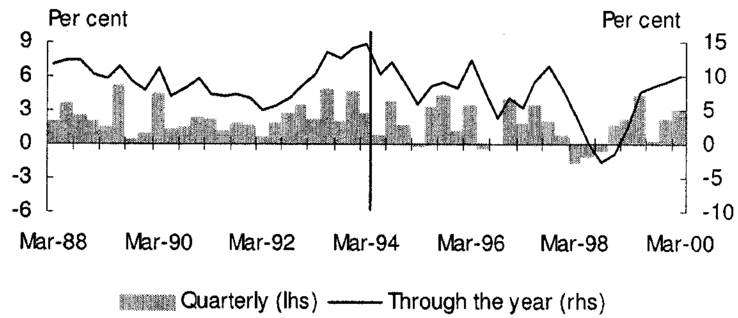
GST introduced October 1986 and rate raised July 1989.

Canada

Singapore



GST introduced January 1991.



GST introduced April 1994.

APPENDIX 5

Table 3.2. **Taxes on general consumption (5110) as percentage of total taxation***

	1965	1970	1975	1980	1985	1990	1995	2000	2001	2002
Canada	17.9	14.4	12.5	11.5	13.2	14.1	14.0	14.3	15.0	15.3
Mexico				15.7	15.9	20.9	16.9	18.7	19.1	19.3
United States	4.8	5.8	7.0	7.0	7.9	8.0	8.0	7.6	7.7	8.2
Australia	7.4	7.4	6.7	5.5	7.9	8.0	8.7	12.1	13.0	13.5
Japan	–	–	–	–	–	4.3	5.2	8.9	8.9	9.5
Korea			12.7	22.0	21.1	20.4	18.9	17.0	17.2	18.9
New Zealand	7.7	8.0	9.0	10.2	10.4	22.4	22.7	24.7	25.7	25.5
Austria	18.7	18.5	19.8	20.1	21.0	20.8	18.2	18.8	18.0	18.7
Belgium	21.1	21.2	16.3	17.0	15.8	16.5	15.3	16.3	15.5	15.7
Czech Republic							16.7	18.3	17.8	17.3
Denmark	9.1	18.9	16.9	22.3	20.1	20.7	19.3	19.5	19.4	19.9
Finland	18.5	19.3	15.9	17.4	18.3	19.3	17.4	17.4	17.8	18.2
France[1]	23.3	25.5	23.4	21.1	20.0	18.8	17.3	16.8	16.6	16.7
Germany	16.5	17.1	14.6	16.6	15.8	16.6	17.4	18.4	18.2	18.0
Greece	10.3	16.9	18.3	13.2	17.2	26.5	23.0	21.8	23.4	23.5
Hungary[2]							19.4	26.1	25.4	24.3
Iceland	16.7	22.0	28.8	28.9	33.0	32.4	31.7	29.7	27.3	27.6
Ireland	5.7	13.1	14.7	14.8	20.6	20.6	21.2	23.1	23.1	25.0
Italy	12.9	13.2	14.3	15.6	14.5	14.7	13.8	15.4	14.9	15.0
Luxembourg	12.4	10.6	12.1	11.6	12.8	13.9	14.0	15.0	15.1	15.5
Netherlands	12.4	14.6	14.4	15.8	18.2	16.5	15.6	17.4	19.0	19.2
Norway	21.5	23.9	20.5	18.2	18.2	18.9	21.2	19.2	19.2	19.2
Poland							17.1	22.0	21.8	22.6
Portugal[2]	–	8.4	11.2	16.2	12.6	19.6	22.4	23.2	22.9	
Slovak Republic[2]								22.3	23.0	22.7
Spain	22.2	20.3	15.3	10.2	14.7	16.0	15.9	17.5	17.0	16.6
Sweden	10.4	10.3	12.0	13.4	14.0	14.9	19.4	18.8	17.6	18.4
Switzerland	9.4	7.9	7.9	9.2	10.7	11.6	12.0	13.1	13.4	13.0
Turkey	–	–	–	–	23.3	20.1	31.1	24.2	23.0	25.1
United Kingdom	5.9	6.8	8.9	14.7	15.9	16.6	19.2	18.2	18.4	19.4
Unweighted average:										
OECD total	13.5	14.7	14.5	15.3	16.4	17.4	17.7	18.5	18.5	18.7
OECD America	11.3	10.1	9.7	11.4	12.3	14.3	13.0	13.5	13.9	14.3
OECD Pacific	7.5	7.7	9.5	12.5	13.1	13.9	13.9	15.7	16.2	16.8
OECD Europe	14.5	16.0	15.9	16.5	17.6	18.7	19.0	19.6	19.5	19.7
EU19	14.2	15.6	15.2	16.0	16.6	18.1	17.9	19.2	19.2	19.3
EU15	14.2	15.6	15.2	16.0	16.6	18.1	18.0	18.4	18.5	18.6

* These tables are taken from *Revenue Statistics* which are published annually by the OECD and are based on a nomenclature common to the OECD countries. Category 5110, which covers general taxes on goods and services, is used for Tables 3.1 and 3.2 and includes VAT/GST, sales taxes and other general taxes on goods and services. Category 5120, *Taxes on specific goods and services*, consists primarily of excise taxes, but also includes certain specific taxes such as customs duties and taxes on insurance and certain financial operations in particular. *Revenue Statistics 1965-2003* is for sale at the OECD's on-line bookshop: www.oecd.org/bookshop.

1. The tax revenues have been reduced by the amount of the capital transfer. The capital transfer has been allocated between tax headings in proportion to the reported tax revenues.
2. For the year 2002, provisional data published in the *Revenue Statistics* Edition 2003 are used.

Source: *Revenue Statistics 1965-2003*, 2004 Edition.

APPENDIX 6

Table 3.5. VAT/GST rates in OECD member countries

	Standard rate					Reduced rate	Domestic zero rate[1]	Specific rate applied within specific region
	1994	1996	1998	2000	2003			
Australia	–	–	–	10.0	10.0	–	No	–
Austria	20.0	20.0	20.0	20.0	20.0	10.0 and 12.0	No	16[2]
Belgium	20.5	21.0	21.0	21.0	21.0	6 and 12.0	Yes	–
Canada	7.0	7.0	7.0	7.0	7.0	–	Yes	15[3]
Czech Republic[4]	n.a.	22.0	22.0	22.0	22.0	5	No	–
Denmark	25.0	25.0	25.0	25.0	25.0	–	Yes	–
Finland	22.0	22.0	22.0	22.0	22.0	8.0 and 17.0	Yes	–
France	18.6	20.6	20.6	20.6	19.6	2.0 and 5.5	No	0.9, 2.1, 8.0, 13.0, and 19.6[5] 1.05, 1.75, 2.1 and 8.5[6]
Germany	15.0	15.0	16.0	16.0	16.0	7	No	–
Greece	18.0	18.0	18.0	18.0	18.0	4.0 and 8.0	No	3.0, 6.0, 13.0[7]
Hungary[4]	n.a.	n.a.	25.0	25.0	25.0	12	Yes	–
Iceland	24.5	24.5	24.5	24.5	24.5	14	Yes	–
Ireland	21.0	21.0	21.0	21.0	21.0	4.3 and 13.5	Yes	–
Italy	19.0	19.0	20.0	20.0	20.0	4.0 and 10.0	Yes	–
Japan	3.0	3.0	5.0	5.0	5.0	–	No	–
Korea[4]	n.a.	n.a.	10.0	10.0	10.0	–	Yes	–
Luxembourg	15.0	15.0	15.0	15.0	15.0	3.0, 6.0 and 12.0	No	–
Mexico	10.0	15.0	15.0	15.0	15.0	–	Yes	10[8]
Netherlands	17.5	17.5	17.5	17.5	19.0	6	No	–
New Zealand	12.5	12.5	12.5	12.5	12.5	–	Yes	–
Norway	22.0	23.0	23.0	23.0	24.0	12	Yes	–
Poland[4]	n.a.	n.a.	22.0	22.0	22.0	7	Yes	–
Portugal	16.0	17.0	17.0	17.0	19.0	5.0 and 12.0	No	4.0, 8.0 and 13.0[9]
Slovak Republic[4]	n.a.	n.a.	23.0	23.0	20.0	14	No	–
Spain	16.0	16.0	16.0	16.0	16.0	4.0 and 7.0	No	2.0, 5.0, 9.0 and 13.0[10] 0.5 and 4.0[11]
Sweden	25.0	25.0	25.0	25.0	25.0	6.0 and 12.0	Yes	–
Switzerland	6.5	6.5	6.5	7.5	7.6	2.4 and 3.6	Yes	–
Turkey	15.0	15.0	15.0	17.0	18.0	1.0 and 8.0	No	–
United Kingdom	17.5	17.5	17.5	17.5	17.5	5	Yes	–
Unweighted average	17.1	17.2	17.7	17.7	17.8			

1. "Domestic zero rate" means tax is applied at a rate of zero to certain domestic sales. It does not include zero rated exports.
2. Applies in Jungholz and Mittelberg.
3. The provinces of Newfoundland and Labrador, New Brunswick, and Nova Scotia have harmonized their provincial sales taxes with the federal Goods and Services Tax and levy a rate of 15%. Other Canadian provinces, with the exception of Alberta, apply a provincial tax to certain goods and services. These provincial taxes apply in addition to GST.
4. The Czech Republic joined the OECD in 1995, Korea, Poland and Hungary joined in 1996 and Slovak Republic joined in 2000.
5. Applies in Corsica.
6. Applies to overseas departments (DOM) excluding French Guyana.
7. Applies in the regions Lesbos, Chios, Samos, Dodecanese, Cyclades, Thassos, Northern Sporades, Samothrace and Skiros.
8. Applies in the border regions.
9. Applies in Azores and Madeira.
10. Applies in the Canary Islands.
11. Applies in Ceuta and Melilla.

APPENDIX 7

GST Start-Up
Assistance Office
www.gststartup.gov.au

GST **Links**

ACHIEVEMENTS TO FEBRUARY 2001

PROGRAMME	DELIVERY	OUTCOME
Organisation Delivered Assistance - Phase 1	Delivery of Seminars and workshops (regarding the implementation of GST) through **157** contracts and grants with peak industry bodies representing Small & Medium Enterprise, Community & Voluntary and Educational entities.	**Approx 17,700 seminars** **832,000 attendees**
Organisation Delivered Assistance - Phase 2	Delivery of Seminars and workshops through **64** contracts and grants with peak industry bodies representing Small & Medium Enterprise, Community & Voluntary and Educational entities.	**Approx 5,000 seminars** **80,000 attendees**
Helpline	13 30 88 opened in October 1999	**Over 1,000,000 calls** until 28 Feb 2001
Websites	Small business, Community & Education + Q & A facility	Over **5 million hits**
Publications	Over 30 publications (+translations of the same into 24 languages)	**20 million published** copies
Direct Assistance	$200 certificates issued to small business' and CVC's registered for GST prior to 31 May 2000	**Approx 1,940,000 certificates** issued Redemption = $282 million through over 14,000 registered suppliers
Signpost Officers	43 Signpost officers available for one on one assistance to rural, regional and remote areas	**One-on-One assistance** to SMECEs
Ethnic Communications	Presentations on GST prior to July (phase one) and on BAS prior to November 2000. Provision of information to ethnic communities about key dates and forms of assistance. Also ongoing information updates through ethnic media.	**570 Ethnic and community leaders** and ethnic media attended presentations
	Indigenous language seminars and videos	**4000 videos in 7 languages**
Community Sector Liaison Officers	Search and find role in relation to community sector	**23 officers** across 20 organisations

	and TNTS	
Indigenous Liaison Officers	Guidance for Indigenous Communities concerning the New Tax System	**1199 individuals** seen, representing **762 organisations**.
Indigenous Train the Trainer	Development of long term tax knowledge within communities	**77 attendees** from 9 locations
Bookkeepers Service	Appointments with bookkeepers for treasurers of non-profit organisations and others in CVC sector.	**1065 appointments** prior to 11 November 2000
Informal Advisors	Seminar series on GST and BAS aimed people who provide information to business owners without `formal' qualification.	**Approx 28,000 attendees**

APPENDIX 8

about the Tourist Refund Scheme (TRS)[17]

The TRS enables you to claim a refund, subject to certain conditions, of the goods and services tax (GST) and wine equalisation tax (WET) that you pay on goods you buy in Australia.

To claim a refund you must:

- Spend $300 (GST inclusive) or more in the one store and get a single tax invoice
- Buy goods no more than 30 days before departure
- Wear or carry the goods on board the aircraft or ship and present them along with your original tax invoice, passport and international boarding pass to a Customs Officer at a TRS facility

Claims at airports are only available up to 30 minutes prior to the scheduled departure of your flight. Claims at seaports should be made no earlier than 4 hours and no later than 1 hour prior to the scheduled

The refund only applies to goods you take with you as **hand luggage or wear onto the aircraft or ship** when you leave Australia. It does not apply to services or goods consumed or partly consumed in Australia, such as wine, chocolate or perfume. However, unlike other tourist shopping schemes, most of the goods, such as clothing and cameras, can be used in Australia before departure.

The TRS is open to all overseas visitors and Australian residents, **except operating air and sea crew**.

The GST refund is calculated by dividing the total amount of the purchase by 11. The WET refund is 14.5 percent of the price paid for wine. For example, if you buy goods for a GST-inclusive price of $660 you will receive a refund of $60. If the $660 is made up of a camera ($460) and wine ($200), you will receive a total refund of $89 (total GST refund of $60 plus $29 WET refund on the wine).

The way TRS works

The refund will be paid on goods totalling $300 (GST inclusive) or more, bought from the same store, no more than 30 days before you leave Australia.

[17] Australian custom Service document - source; - http://customs.gov.au/site/page.cfm?u=4646

You may purchase several lower-priced items from the one store, either at the one time or over several occasions within the 30-day period, provided the total purchase amounts to $300 (GST inclusive) or more. You will have to ask the retailer to consolidate these lower-priced purchases onto a single tax invoice. Be sure the retailer will do this before buying the goods.

You may buy goods from several stores, provided each store's tax invoice totals at least $300 (GST inclusive).

You can collect your refund through one of the following methods:

- cheque
- credit to an Australian bank account
- payment to a credit card

Customs will aim to post cheque refunds within 15 business days. Bank and credit card refunds will be issued by Customs within 5 business days, however, payment will be subject to processing by your bank or card issuer.

What you need to do when buying goods

If you wish to claim a refund, **you must get an original tax invoice** from the store where you buy the goods. All stores registered for GST will be able to give you a tax invoice. A refund cannot be given without it.

A tax invoice prominently states the words 'tax invoice' and the Australian Business Number (ABN) of the retailer, the purchase price including the GST paid, a description of the goods, the name of the retailer and the date the purchase was made.

Tax invoices for purchases of $1000 or more must contain additional information, such as the name and address of the purchaser.

More information on tax invoices is available by contacting the Australian Taxation Office.

How you make a claim

You will need to present the following at the Customs TRS facility when you depart Australia:

- your goods (to prove you are taking them out of the country)
- the original tax invoice totalling $300 (GST inclusive) or more from the retailer (to
- your passport
- your international boarding pass or other proof of travel

You should note that it is a legal requirement that the person who purchases the goods must be the person who makes the claim for a refund of GST.

Claims at airports are available up to 30 minutes prior to the scheduled departure of your flight.

Claims at seaports should be made no earlier than 4 hours and no later than 1 hour prior to the scheduled departure time of the vessel.

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TRS facility location

Claims can be made **after** you have passed through Customs and Immigration outward processing.

The TRS facilities are located past Customs and Immigration outwards processing at international airports at Sydney, Brisbane, Melbourne, Perth, Cairns, Adelaide, Darwin and Gold Coast.

They are also available at cruise liner terminals at Circular Quay and Darling Harbour in Sydney, Brisbane, Cairns, Darwin, Fremantle and Hobart.

If you are leaving Australia from the above seaports or any other seaport you should contact Customs to find out if and where you can make a claim.

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Goods that do not attract refunds under the TRS

The following goods are excluded from the TRS:

alcohol such as beer and spirits (you can buy wine and wine products under the TRS) and tobacco products (these goods can be purchased from duty-free

GST-free goods-no refund can be claimed if no GST was paid

consumables wholly or partially consumed in Australia

goods which are prohibited on aircraft or ships for safety reasons. These include items such as gas cylinders, fireworks and aerosol sprays (all airlines provide information to passengers on prohibited items)

goods which fail to meet airline cabin-size or ship hand luggage restrictions

unaccompanied goods (including freighted or posted goods)

services such as accommodation, tours and car rental and labour charges

goods purchased over the Internet and imported into Australia

Please note: You will not receive a refund unless Customs is able to verify that you are taking the goods with you. The goods must be taken on board the aircraft or ship on which you are travelling. You therefore need to include the goods in your **hand luggage or wear them onto the aircraft or ship**.

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How long it will take you to make a claim

For passengers departing from international airports, the process will only take a few minutes. However, you should allow time to complete check-in and outwards clearance formalities and also allow for queues at the TRS facility.

Claims at airports are available up to 30 minutes prior to the scheduled departure of your flight.

Claims at seaports should be made no earlier than 4 hours and no later than 1 hour prior to the scheduled departure time of the vessel.

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Bringing the goods back into Australia

If the goods are to be brought back into Australia, please be aware that they may be subject to GST. Normal passenger concessions apply and include any items for which a TRS claim has been approved (excluding most personal items such as new clothing, footwear and articles for personal hygiene and grooming). If the value of those goods together with overseas purchases exceeds the passenger concession, the goods must be declared to Customs on your return to Australia. Penalties apply to undeclared taxable goods.

If in doubt you should declare the goods to Customs on your return.

More information is contained in the brochure 'Know Before You Go' which is available from Customs.