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11 June 2015

Tax White Paper Taskforce  
The Treasury  
Langton Crescent  
PARKES ACT 2600

### **SUBMISSION: TAX WHITE PAPER “BETTER TAX”**

On behalf of The Pharmacy Guild of Australia (the PGA), I am pleased to provide this submission to the Government’s Tax White Paper.

In this short submission I intend to focus on one key concern for community pharmacy in relation to how the current tax system creates unnecessary impost on community pharmacies as small businesses and impedes the business growth for small business operators in the sector.

The Goods and Services Tax (GST) applies to most types of goods and services. However, a significant portion of consumption is excluded. Most of the categories of consumption not subject to GST are ‘GST-free’. This means that not only are these goods and services not subject to GST when sold, but their suppliers can also claim a refund on any GST levied on the inputs they used to produce them.

Since the introduction of the GST in 2000 as part of The New Tax System, community pharmacies as small business have been burdened with a sector unique impost that significantly impacts the ability of community pharmacies to operate in the same way as other small businesses.

This unreasonable and considerable administrative business burden arises from the treatment under the GST system of the supply of medicines. GST is payable on the supply of medicines throughout the supply chain until the point at which the medicine supply reaches the end consumer, the patient who presents with their script in a community pharmacy. At this point the current GST regime provides that the consumer does not pay GST on the medicines that they purchase. This imposes a significant cash flow burden on community pharmacy owners.

Prescribed medicines account for approximately 67%<sup>1</sup> of sales turnover in the average community pharmacy. With the current GST regime, pharmacy owners are required to pay GST on their medicine purchases to their suppliers, but are unable to pass on the GST to their patients. All community pharmacy owners must then claim a refund in order to restore the cash flow for their business. The simple evaluation provided below of how this translates to the conduct of business in an average community pharmacy demonstrates the unreasonable burden imposed.

Community pharmacy owners are always in the situation of claiming a GST refund via their Business Activity Statements (BAS). GST refunds arrive approximately six weeks after the end-of-month financial cycle. This six week timeframe takes into consideration that on average:

- Three or four weeks elapse in the preparation and lodgement of a BAS; and

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<sup>1</sup> Guild Digest 2014

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- A further two weeks lapses before the refund is returned to the community pharmacy.

In the meantime, the pharmacy owner is required to pay for the medicines they have purchased from their supplier twenty-five days after the month-end. This creates a cash flow impact for the business for the, approximately, three weeks it takes to get the GST refund.

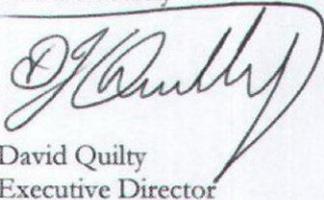
For a pharmacy that is turning over \$3million, this cash flow impact is approximately \$12,000 each month. Like any small business sector, pharmacy businesses range in size in terms of their turnover. The Guild's analysis of the cash flow impact across the sector shows that the burden ranges from \$12,000 to \$20,000 each month depending on the size of the pharmacy and the percentage of purchases which are medicines.

The effect of this taxation system burden creates two problems for community pharmacy owners. Firstly there is the cash flow impact outlined above. Secondly, in order to keep the impact down to levels described, pharmacy owners must lodge their BAS monthly instead of quarterly. Our understanding is that most other small business operators lodge their BAS quarterly. As a result, community pharmacy owners lodge eight more Business Activity Statements than most of their small business contemporaries in other sectors.

It is the Guild's recommendation to the Government that substantial relief could be provided to the 5,400 small business operators in the community pharmacy sector by simplification of the GST provisions applying to the supply of medicines. Specifically the Guild recommends that medicines are made GST-free all the way through the supply chain system.

The Guild would be pleased to add to this submission verbally or through the provision of more in-depth data if required by the Taskforce team.

Yours sincerely



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