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The General Manager
Indirect Tax Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: marginscheme@treasury.gov.au

Dear Sir or Madam

**SUBMISSION ON TREASURY DISCUSSION PAPER
IMPLEMENTATION OF THE RECOMMENDATIONS OF TREASURY'S REVIEW OF THE
GST MARGIN SCHEME**

CPA Australia represents the diverse interests of more than 129,000 members in over 110 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders.

Against this background, we now provide this submission concerning the Treasury Discussion Paper issued on 10 December 2010 in relation to the Implementation of the recommendations of Treasury's review of the GST margin scheme. In making this submission reference is also made to our earlier submission dated 7 August 2009 in respect of the Treasury Consultation Paper on the Review of the Margin Scheme issued on 12 May 2009.

This submission is made not only on behalf of our members but also for the accounting profession and in the broader public interest.

As detailed in our submission dated 7 August 2009, CPA Australia strongly recommended that the preferred option for reform of the margin scheme was that the existing provisions set out in Division 75 of A New Tax System (Goods and Services Tax) Act (1999) ('the GST Act') be retained but rewritten so that they applied in a more logical and comprehensible format.

In our view such an approach was preferable to the replacement of the scheme with a principles based approach or a notional input tax regime as the prior disputation and uncertainty associated with the margin scheme has been progressively clarified through legislative amendments and rulings and determinations issued by the Australian Taxation Office (the ATO).

We were therefore pleased when the then Assistant Treasurer announced on 11 May 2010 that there would not be wholesale changes to the margin scheme but that Division 75 of the GST Act would be rewritten so as to give prominence to its main principles with exceptions set out clearly and objects clauses inserted to make the intention of key provisions clear.

We believe that the proposed format for the rewrite of Division 75 of the GST Act set out in the Discussion Paper will effectively achieve the Government's objective of enacting clearer law as it provides a logical structure for the rewritten provisions as it commences with the

core principles in a new proposed Subdivision 75-A and then subsequently details the more complex special cases and adjustment rules which can arise in proposed Subdivisions 75-B and 75-C.

We expect this approach will potentially reduce the compliance costs for many micro-businesses which only engage in conventional transactions which do not involve the more complex considerations that would be subject to the special rules set out in Subdivisions 75-B and C.

However, we do suggest that the Government's stated objective of clearer law would be more effectively realised if the following additional recommendations were also adopted:

- The term 'margin scheme' itself can create misconceptions in the marketplace as many small to medium sized enterprises (SMEs) broadly equate the term 'margin' with the 'profit' that a seller of property will realise on sale.

Such a view is contrary to the underlying purpose and operation of Division 75 of the GST Act which subjects to GST the 'value added' to the property on or after 1 July 2000, or from any later date on which the owner of a pre 1 July 2000 acquired property interest becomes required to be registered for GST purposes.

Hence, we recommend that the heading of Division 75 be amended to refer to the "Valued Added Property Scheme" in lieu of the 'Margin Scheme' as this more accurately describes the application of Division 75 and reduces misunderstanding regarding the underlying purpose and scope of these provisions; and

- The rewritten provisions should expressly deal with the issue of whether stamp duty paid on the acquisition of property forms part of the consideration for the acquisition of the relevant interest under the consideration method as this will similarly provide clarity especially for SMEs and their advisers.

We also welcome the proposed amendment to section 75-15 of the GST Act which will allowed a supplier to use an approved valuation of the land or premises in calculating the margin on the supply of a part of an acquired interest on a subdivision. Such an approach will provide greater equity especially where the valuation of the land or premises at 1 July 2000 is higher than the cost of that land where it was acquired prior to that date. It also ensures that there is consistency of GST treatment between a full supply of the land or premises acquired and a partial supply of such an interest under a subdivision of property.

If you have any questions regarding the above, please contact me on (03) 9606 9860 or via email at mark.morris@cpaaustralia.com.au.

Yours faithfully



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