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APPLICATION TO AUSTRALIA'S GST SYSTEM

Australia's GST system is a tax levied on most transactions. GST is paid at each step in the supply chain, with businesses charging GST in the price of their supplies. Enterprises receive input tax credits that offset GST included in the price paid for their acquisitions and importations. The GST liability flows along the supply chain and is included in the price paid by the consumer. In contrast, a retail sales tax is typically only due at the last step in the supply chain.

A move to allow for consumers to self assess their own GST liability is a substantial difference from the current operation. We anticipate that any self assessment by consumers of their own GST liability will result in a low level of compliance, as is seen by the USA's experience with the self assessment of use tax. Furthermore, we are not aware of any country that allows for consumers to self assess a GST or VAT liability with a reasonable rate of compliance.

There are numerous practical difficulties in implementing a self assessment regime for GST on imports of goods and/or services by a consumer. For instance, a consumer must keep all

documentation for all importations they make over the year. As the only consequence would be to increase their tax liability it is unlikely that consumers would act in this manner. s37
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Consumers may face high compliance costs for other reasons: they would have to distinguish between imports of GST-free and input-taxed goods, and imports of taxable goods.

- While there are few GST-free and input-taxed supplies, there may be some such goods (and perhaps services if imports of these were made taxable) that fall within these categories.
- If the currently defined value of the taxable importation was used as the basis for assessment, consumers would also have to know the transport and insurance costs and customs duty (if any) for the imported goods.
- Some consumers would not even know what a GST-free, input taxed and or even taxable supply was or what customs duty was (let alone be able to find out the applicable duty). To penalize them for not paying GST on such imports would be harsh and difficult.

Consumers would also have to calculate their GST liabilities and some may make errors in doing so. Many consumers may not even know that they have a GST liability at all. They could order goods over the internet from what appears to be an Australian website and be unaware that the goods have actually been shipped from overseas.

Consumers also would need to be able to pay their GST liabilities and manage their affairs so as to provide for this liability. Even though the liability would only relate to the GST on importations, and perhaps be further restricted to those not exceeding the low value threshold, for some taxpayers, their GST liability over the tax period may be significant. Hence there is a risk that some taxpayers will not be able to discharge their liability.

Assuming that a self assessment program is introduced into Australia and a high rate of compliance is achieved, the result may still be undesirable. Recent changes announced by the Government have attempted to decrease the number of people submitting tax returns and complexity for those who do. These include increasing the tax free threshold, allowing for a standard deduction and the use of pre-filled information. Self assessment of GST on importations would substantially increase the number of people who would need to submit a tax return, many of whom would have only a small amount of tax due. This would increase the compliance costs of the public and the administrative costs of the ATO. It is unlikely that the small increase in revenue would justify this increase in costs.