

ARA Response to Digital Economy and Australia's Corporate Tax System

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Australian
Retailers
Association

AUSTRALIAN RETAILERS ASSOCIATION

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The Digital Economy and Australia's Corporate Tax System – Discussion Paper

About the ARA:

The Australian Retailers Association (ARA) is the retail industry's peak representative body representing Australia's \$310 billion sector, which employs more than 1.2 million people. The ARA works to ensure retail success by informing, protecting, advocating, educating and saving money for its 7,500 independent and national retail members, which represent in excess of 50,000 shopfronts throughout Australia. The ARA ensures the long-term viability and position of the retail sector as a leading contributor to Australia's economy.

Members of the ARA include Australia's most trusted retailers, from the country's largest department stores and supermarkets, to specialty retail, electronics, food and convenience chains, to mum-and-dad operators.

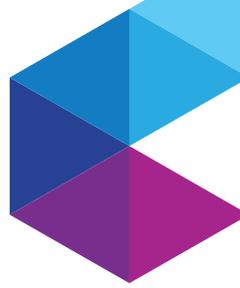
Executive Summary:

The ARA is pleased to have the opportunity to respond in brief to the Treasury's discussion paper, '*The digital economy and Australia's corporate tax system*' (discussion paper).

The discussion paper signals a marked shift in approach towards the taxation of companies in Australia and highlights a range of options for the further long-term immersion of highly-digitalised businesses in the tax system. Significantly, the discussion paper implies the imposition of a digital services tax as an interim measure, whilst further solutions are developed.

The ARA's response to this discussion paper is directly informed by the importance of the digital economy to the retail industry. Over the last decade, the industry has experienced a significant degree of disruption due to a range of new ways of doing business, enabled by technology shifts and globalisation. Whilst this has created substantial challenges for some in the industry, it has also opened up significant opportunities for growth, innovation, improved service provision and competition, among others.

The digital economy is now intrinsically linked with the retail industry and has allowed for a significant degree of business transformation activity to occur. The value added



by data-driven developments in areas including marketing and advertising activities and marketplace selling platforms has enabled many retail businesses to survive a period characterised by changing consumer behaviour and intense sectoral competition.

The ARA is concerned that some of the proposed measures as noted in the discussion paper may adversely impact on an industry which employs 1.3 million Australians and represents a \$310 billion annual contribution to the Australian economy.

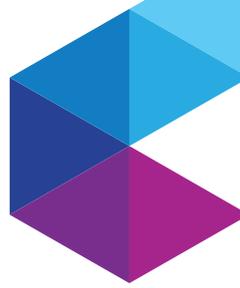
1: Recent developments:

The release of this discussion paper by the Treasury follows a series of developments across recent years to ensure that international businesses operating in Australia are compliant with domestic taxation obligations. The ARA has been in support of a number of these measures, including making a submission regarding the Multinational Anti-Avoidance Laws, and leading the campaign to ensure that international vendors comply with the obligation to charge GST on purchases by Australians. These measures have been key to helping to level the competitive playing field for local businesses, and ARA members have welcomed them.

Of note in relation to the discussion paper is the Organisation for Economic Co-Operation and Development's (OECD) Tax Challenges Arising from Digitalisation work. This marks a significant development in international cooperation on taxation policy responses to the significant structural changes of recent years. The ARA understands supports its significant work on proposed policy responses to the proliferation of highly-digitalised businesses, including the difficulties arising with tax compliance due to the ease of which such entities may operate across borders.

With this in mind, the ARA is concerned that the discussion paper implies an apparent shift away from international cooperation on this front. The suggestion of a unilateral decision to swiftly implement a digital services tax as an interim measure, prior to the OECD's processes being completed, is a surprising and unwelcome move. The ARA is concerned at this suggestion, as we view this potential move as a significant break from best-practice. We believe that Australia would be best-served by an approach which has considered the entire scope of the issue, with due consideration paid to the potentially serious unintended consequences of unilateral action.

The ARA strongly supports the continuation of the OECD's work to achieve a structural, long-term response, based on best-practice evidence, defining digital presences, and appropriate profit attribution.



2: Issues Related to Implied Measures:

Broadly speaking, the ARA and our members have a number of concerns relating to the potential move to establish a digital services tax in Australia, prior to the completion of the OECD process.

2.1: Potential Harms to Trade and Investment:

It is well-accepted that the Australian economy is heavily reliant upon trade partnerships with foreign counterparts, which supports our industries, provides employment, and increases the opportunities for investment in Australia. Moreover, Australia's exposure has increased in recent times as a result of digitisation's effect on hastening globalisation.

The ARA is concerned that the swift and unilateral implementation of a digital services tax in Australia will hamper trade and investment, reducing Australia's attractiveness as a competitive economy. This will likely drive up costs for retailers looking to source products from overseas, which will flow-on to consumers and households in the form of reduced availability and higher prices.

Over the last decade, the retail industry has seen a major boost due to the innovation and opportunities afforded by digitisation and trade. Significantly, a number of global retailers have established their presence in Australia, initially through a digital presence online, and then by deciding to establish physical operations in Australia.

This has yielded significant investments in development and job creation, as well as providing important competition and price benefits for consumers. The effects of competition have also yielded benefits for some local retailers, who have risen to the challenge of innovating to continue to attract customers, which again, has been of significant benefit to consumers.

2.2: A Shift Away from Norms:

The ARA notes that prior developments to the release of this discussion paper include moves by the European Union to impose a 3% gross tax on online advertising and marketplace **revenue** and plans for a similar 2% measure in the United Kingdom.

This amounts to unfair targeting of highly-digital businesses with little understanding or mutually settled definition of the issue at-hand. The ARA is also concerned that in order to avoid violating World Trade Organisation rules, such a move should apply to domestic as well as foreign entities. This move would cruel innovation, discouraging local entrepreneurs from establishing start-ups, and preventing future economic and commercial opportunities.

Retailers are concerned about the implied shift away from traditional norms to tax corporate revenue instead of profit. The ARA notes that a number of significant



domestic and international businesses operate online marketplaces in Australia, comprised of a multitude of individual sellers, the majority of which are small businesses. Any moves to tax the revenue generated by marketplace platforms would flow-on to these small businesses, which will be disproportionately impacted by the implied preference for the establishment of a digital services tax. The ARA views this as anti-competitive and unfair.

2.3: Costs to Business:

The ARA is also concerned that the establishment of a new tax regime, namely, a digital services tax, would impose significant compliance and administrative costs. Retailers already face significant cost pressures and a difficult operating environment, with revenue growth sitting below-trend. The industry can ill-afford the addition of further compliance costs, especially given the trend towards digitisation bulk of the industry.

Summary:

The ARA is concerned about the implied move towards imposing a digital services tax in Australia, in a break with international norms, and ahead of a co-operative process through the OECD.

The ARA's position remains that every new tax or compliance measure should be fully considered, with appropriate understanding of the broader impact and any negative unintended consequences. Australia has a high priority to abide by norms and follow the OECD process, to achieve a unified approach to digital taxation, rather than an uncoordinated, unilateral measure.

Thank you for the opportunity to represent the retail industry on this matter. Should you wish to discuss the ARA's position further, please contact Josh Walker, ARA Policy and Regulatory Affairs Advisor at josh.walker@retail.org.au, or Russell Zimmerman, ARA Executive Director at russell.zimmerman@retail.org.au.

Kind regards,



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J Walker

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