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**TREASURY MINISTERIAL BRIEF**

16 March 2017

PDR No.

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**Extension of the GST reduced input tax credit for ‘credit union services’**

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*Key points*

- COBA is proposing that the reduced input tax credit (RITC) scheme, currently available to credit unions including those rebranded as banks, be extended to mutual building societies and mutual banks (that are former mutual building societies).
- We do not support extending the scheme as the policy rational, of levelling the playing field between credit unions and other financial institutions may no longer be relevant.
- The States and Territories also do not support the proposal on the same basis and we have advised COBA of their views.

*Background*

- The scheme was originally intended to recognise that credit unions were, at the time, typically small entities that needed to outsource more services than other financial institutions, and thus should be entitled to an RITC in respect of those services.
- However, the policy rational for maintaining the scheme becomes progressively weaker as the industry consolidates and these entities become larger and the need to outsource is reduced.
- Financial supplies (e.g. loans and bank accounts) are input taxed, meaning that no GST is charged on the final supply, but neither can the supplier claim input tax credits in respect of the acquisitions made to produce those supplies.
- The scheme allows credit unions, including those that have rebranded as banks, to claim a refund of 75 per cent of the GST paid on acquisitions that relate to their financial supplies. Examples of such acquisitions include loans services, transaction banking, cash management services, insurance services and debt collection services.
- Extending the scheme would have a cost to GST revenue. Under the *Intergovernmental Agreement on Federal Financial Relations*, changes to the GST base require the unanimous agreement from the States and Territories.

*Talking points*

- I appreciate your concerns about the input tax treatment of financial supplies.
- As you are aware, changes to the GST require the unanimous agreement of the States and Territories.
- Your proposal has been considered by State and Territory officials. However, they did not express support for the proposal and I understand Treasury has advised you of their views.