Date introduced: 19 August 1985
House: House of Representatives
Presented by: Hon. Chris Hurford, M.P., Minister Assisting the Treasurer

DIGEST OF BILL

Purpose

To amend the Sales Tax (Exemptions and Classifications) Act 1935 in order to broaden the wholesale sales tax base; to exclude certain goods from the highest rate Schedule, to exempt imported horses from tax and to rectify classification anomalies and inconsistencies.

Background

The wholesale sales tax, introduced in 1930, is a multi-rated, single stage tax levied on selected goods sold by manufacturers and wholesalers to retailers. Unless specifically exempted, all goods produced in, or imported into, Australia for domestic use are taxable. Goods imported by retailers and consumers, therefore, will also be taxable.

Manufacturers, wholesalers and importers pay the tax to the Commonwealth, the tax being based on a sale value equal to the wholesale value of the goods. Where tax is payable on a sale by a manufacturer to a consumer (effectively, a retail sale), a fair wholesale value must be determined. Where royalty is paid on goods but is not part of the sale value of goods, tax is payable by the person paying the royalty at the rate applicable to the goods.

Manufacturers and wholesalers are required to register with the Taxation Office except for those who deal only with exempt goods. A certificate of registration is issued and the certificate number, when quoted, allows a registered person to acquire tax free goods. This system is necessary to avoid double taxing of goods, e.g. where a manufacturer acquires tax-free raw materials by quoting his
certificate but is required to pay tax on his sales of finished products. Importers who are wholesalers and manufacturers may acquire imports tax free by quoting their certificates. However, retailers and consumers importing taxable goods pay sales tax on entry for home consumption.

Monthly returns of the transactions must be lodged with the Taxation Office by registered manufacturers and wholesalers. They are required to calculate the tax payable on their taxable transactions and to forward payment of tax with each return. Sales taxpayers, when selling goods to a retailer or other customer, add a charge equal to the tax that they are liable to remit with their return. The tax is then passed on to the consumer by the retailer.

The sales tax legislation is comprised of a number of Acts and Regulations under the Acts. There are nine basic Sales Tax Acts (Rating Acts) which specify the rates of tax. The corresponding Sales Tax Assessment Acts provide the machinery for assessment, collection and administration of the tax. Three further Sales Tax Acts impose tax on royalty payments that are not subject to tax under the Rating Acts, i.e. where royalty payments have not been included in the sales value of goods. Tax is imposed at rates that are applicable in relation to the particular goods under the Rating Acts. (For further information, refer to the Bills Digests for the Sales Tax Assessment Bill (No. 10) 1985, and the Sales Tax Bills (Nos. 10A, 10B and 10C) 1985).

The Sales Tax (Exemptions and Classifications) Act 1935 contains Schedules specifying the exempt classes of goods and those that are taxable at the current rates of 7.5%, 10%, 20% and 32.5%. Goods not specified in any of the Schedules are taxable at the general rate of 20%. The Sales Tax Procedure Act 1934 is a machinery Act containing provisions having common application to all classes of transactions.

Following the Government's inability at its July 1985 Tax Summit to gain community acceptance of the broadly based consumption tax, the Treasurer announced, on 13 August 1985, that the existing wholesale sales tax structure would be rationalised and there would be no major extension of the indirect base. On 19 September 1985, the Treasurer presented a statement on the reform of the Australian Taxation System. It included measures relating to the broadening and rationalising of the wholesale sales tax system.
Outline

The wholesale tax base will be broadened by this Bill, which is the main Bill in a package of eleven Bills, so that certain food items, household equipment and electrical products will be taxed at rates that are applicable to their close substitutes. Certain goods such as records, cassettes, video tapes, some household and personal care items, will no longer attract the 32.5% tax but will be taxed at the general rate of 20%.

As announced by the Treasurer in his 1985 Budget Speech, horses imported into Australia solely for breeding and horses born in and imported from New Zealand and certain other specified places will be exempt from sales tax from 21 August 1985.

This Bill will also remove a number of specific anomalies and inconsistencies.

Main Provisions

A detailed analysis of the clauses of the Bill is contained in the Explanatory Memorandum.

Measures which broaden the sales tax base and correct current anomalies are to operate from 20 September 1985 (clause 2).

The Schedules to the Principal Act are to be amended by Schedules 1 and 2 of the Bill (clause 4). Schedule 1 inserts an item 117A into the First Schedule of the Principal Act thereby exempting imported horses from sales tax.

Schedule 2 amends the First, Second, Third and Sixth Schedules of the Principal Act to broaden the tax base and to correct anomalies and deficiencies. Consequently, a 10% sales tax is to be imposed on biscuits, ice-cream, ice-cream products and snack foods. For consistency, the rate for confectionary is to be reduced from 20% to 10%. Ice-cream and biscuits manufactured on retailers' premises are to be excluded as well as products consisting mainly of whey or of whey and milk products, and frozen yoghurt. Crispbreads, and rusks for infants and invalids are to be tax exempt.

Herbal teas, fruit teas, ginseng tea and other similar beverages are to be treated as "tea" and, therefore, are to be exempted from sales tax.
Household wrapping materials or bags, water heating, storage and treatment equipment, domestic stoves, ranges, fire grates and fireplaces, non-oil burning household space heating appliances, are to be omitted from the First Schedule and included in the Third Schedule, thereby attracting a sales tax of 10%.

A new item 109A is to be inserted into the First Schedule to exempt all imported bullion from sales tax.

Attachments for log forwarders for use in the timber-getting industry (currently taxable at 20%) are to be made tax exempt. An inconsistency will therefore be removed whereby both the attachments, and the equipment itself, will be tax exempt.

Certain items are to be removed from the Second Schedule with the effect that those items will be taxable at the general rate of 20%, rather than the proposed 30% for this Schedule. Goods affected will include ornaments, pens, records, cassette and video tapes, shaving equipment, totalizator equipment, artificial flowers and fruits, fancy goods, cigarette lighters and cases.

Compost bins for household purposes are to be included in the Third Schedule. As a result, the sales tax on the bins will be reduced from the general rate of 20% to 10% and, therefore, will be taxed similarly to incinerators and garbage cans.

Books consisting wholly or principally of maps are also included in the Third Schedule. They are currently tax exempt under the First Schedule but, in future, will be taxed at 10% in line with maps which are already taxable.

The Sixth Schedule is to be amended to include containers for goods covered in that Schedule, as being taxable at 10%. Consequently, the current anomaly, whereby the containers are taxed at 20% while the goods attract a 10% tax, will be removed.
For further information, if required, contact the Economics and Commerce Group.

18 October 1985

Bills Digest Service
LEGISLATIVE RESEARCH SERVICE

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