



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

**A NEW TAX SYSTEM (TAX
ADMINISTRATION) BILL (NO. 2) 1999**

Second Reading

SPEECH

Monday, 13 March 2000

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

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Questioner
Speaker Cox, David, MP

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Mr COX (Kingston) (8.10 pm)—The Liberal Party claims to be the party of small business, but by its every action it demonstrates that the opposite is the case. Many small businesses face a very uncertain future with the GST—uncertainty that the Liberal Party is entirely responsible for creating. On Friday I had a long conversation with the proprietor of a small business at Hackham in my electorate. He had been to a seminar at the Christies Beach Hotel put on by the Hackham Traders Association to provide its members with information to help them deal with the GST. They had been briefed by a local accounting firm, which had provided them with some material, including a booklet published by Taxpayers Australia Inc. This is a very helpful booklet designed to assist small businesses. It is not a piece of anti-GST propaganda, despite its rather catchy title, *Beware the GST! An urgent warning to small business*. But it sends a number of warnings to small business about the GST. It begins:

The fuse is lit now!!

For some reason everyone seems to think the GST starts on 1 July 2000. But the fuse is already lit! It's burning right now! And there's no stopping it. So...are you ready for the big bang?

If you're not, you're already in trouble because anyone in business, big or small, could go out of business.

Consider these three GST hard facts:

Fact 1: You are responsible for paying the GST, not your customer.

Fact 2: You have to pay GST even if you forget to add it to your prices! Think about it! A disaster like that would blow a big hole in most businesses.

Fact 3: GST already applies to many deals that run past 30 June 2000—like leases, construction contracts, insurance policies, magazine subscriptions etc.

The Government says that the GST is not just a new tax, it is a new tax system and is a huge landmark in the history of Australia. They say that it will return a bonus of billions of dollars to Australian taxpayers, large and small. They may be right—but there is also a minefield of problems, which could ruin small business if they do not manage the GST properly. If you don't plan the move to GST, you may not have a business left to save.

One of the things that the Prime Minister and the Treasurer should explain is what level of small business failure they expect because of the GST. How many hardworking Australian small business people will lose their livelihoods, even their homes and their families, because of the changes that the GST will inflict on them? These are changes that many businesses are not equipped to manage. They include changes in the market in which they operate over which they will have no control.

If there is a substantial level of business failure, the effects of that on other businesses are going to have a knock-on effect through the small business sector. If you run a transport business and it fails because of the GST, the local mechanic, the tyre dealer and the petrol station where you have an account will all suffer. For many, the GST paperwork will provide a new insight into how their businesses run. It will force a management discipline on small businesses that previously had just got on with the job of delivering goods or services to their customers.

I have been witness to discussions between Liberal MPs who have said, 'It's better that people find out early that their businesses aren't viable so they can get out and do something else.' By that they meant that they have insufficient working capital to handle the GST or insufficient information about the costs of running their business. This attitude that the government is doing people a favour by demonstrating that their business is not viable is arrogant and out of touch. It ignores some important points. The first is that many people in small business only make wages. Many are doing it because they prefer to be their own boss, not because they have made a calculated assessment of the return on their capital and time. And in this day and age of downsizing, some do not necessarily have a great range of options as to what else they might do. Many who have been doing something they find satisfying to earn a living will be on unemployment benefits because of the GST. For them, moving to the new tax system will not be a short-term adjustment; the consequences may be permanent.

With that bit of background, I would like to go through some of what Taxpayers Australia Inc. call 'Honest answers to scary questions. To help you sidestep disaster'. I will start with question 8 which asks: 'Why do I have to pay?' The answer to this question is very important: 'Because the government says so.' Question 9 asks: 'Can't I just leave the GST to my accountant?' That of course is what many small businesses do now with their personal or company tax while they get on and do those things that actually bring in the money. Many people are about to find out that the government thinks they made the wrong career choice. They did a trade to become a painter, a mechanic, a carpenter or a plumber. However, the government has decided that they should have been an accountant.

Taxpayers Australia's answer confirms this. They say, 'No, no, no, no! Don't make that mistake! Your accountant can only say what you have to pay. You have to collect it and you have to pay it! You are the person who will have to make the hard business decisions. Your accountant can help, but ultimately it is your problem. The GST is not just a new tax; it is, in effect, an additional cost that you must pay. And you incur the tax as you go, day in, day out. So you must make an allowance for paying the GST day in, day out. If you don't add GST to each and every price, you end up paying the GST yourself. The extra cost could ruin your business.'

Questions 10 and 11 ask: 'How will the GST affect my business? Is there any way of predicting these changes?' The answer is 'The effects will vary from business to business. But because the GST is a cost you add to the price you charge for your goods or services, be ready for things to change! Some goods may decrease in price, so you may increase your sales. In other cases, prices may go up and your sales may go down because your customers cannot or will not pay that price.' Question 13 asks: 'What happens if I don't pay GST?' The answer is: 'You get fined, a lot. The penalty for any unpaid GST is 16 per cent per year on the unpaid amount calculated from the day the amount becomes due and payable. That will hit your bottom line like a ton of bricks.'

Question 14 asks: 'Do I have to lodge a GST tax return?' The answer is: 'Did Rose Kennedy have a black dress? Of course. It is a tax. So be very sure you have to do a tax return. If you are registered for the GST you will have to do a monthly or quarterly return.' Question 15 asks: 'What about my customers?' The answer is 'Where your customer is also in business they may be entitled to claim a credit for the GST included in the price—called an input tax credit. Your customer is entitled to that GST credit irrespective of whether you are able to increase the price of goods and services you sell.'

Question 17 asks: 'Should I include GST in my advertised price?' The answer is: 'Not "should", "must". Very definitely. No ifs and buts. No exceptions. No excuses. The Australian Consumer and Competition Commission makes the rules and they say you must include the GST in your advertised prices. What's more, if you forget to include it, you are not allowed to add it to the price when the customer pays. The tax is still due, but you pay it, without getting it back from your customer.' Another way bad GST management means big losses. 'And, if you do try to add the tax when the customer pays—big fines, up to \$500,000 for individuals and up to \$10 million for corporations.'

Here I beg to differ with Taxpayers Australia Inc. The requirement to include the GST in the price, and indeed to not require its disclosure on sales dockets and invoices, was not a decision of the ACCC. It was a decision of the Prime Minister and the Treasurer because they wanted to hide the effect of the GST on prices so that voters would not be reminded of the GST every time they made a purchase.

Question 18 asks: 'Can I put up my prices to cover extra administration?' The answer is: 'No! Nein! Ohey! Negative! Nyet! Non! In any language a big fat no! Again, ACCC rules forbid this in clear and threatening tones. Try it and you could land in big trouble.' Question 22 asks: 'Do I have to register or something?' The answer is: 'You must definitely register if the value of goods or services you sell is \$50,000 per annum or more—that includes payment in kind as well as cash. That is, if someone provides you with goods or does something for you instead of paying with money, you must pay tax on the value of those goods or services. Not-for-profit bodies must also be registered but only if their annual turnover is \$100,000 or more. All taxi operators—unless you are an employee—must register regardless of their turnover.'

The \$50,000 registration threshold is inconsistent between businesses because it relates to turnover not to profit—at least in its effect on businesses. Some businesses, particularly hairdressing, may have relatively few inputs apart from labour and provide a reasonable income to someone operating below the threshold. Other businesses, for example small transport operators, will have a higher proportion of inputs apart from labour, so they cannot earn a reasonable income operating below the \$50,000 threshold. What is very interesting is that the government has chosen to single out taxi drivers and, where they are not in an employee relationship, require them to register

for the GST irrespective of their turnover. I would encourage every taxi driver to ask every Liberal politician who gets into their cab why they have been singled out for such special treatment. I challenge every Liberal politician who gets asked that question to answer it honestly and see whether they get to their destination.

Question 24 asks: 'What happens if I do not register for GST?' The answer is: 'If you do not register for GST when your turnover exceeds \$50,000, \$100,000 for non-profit organisations, the tax office will still require you to pay them any GST that should have been collected from your customers. If that occurs, what are your chances of collecting GST from customers for past sales? The short answer is: you'll wear the cost. And, of course, there's a fine.' Question 28 asks: 'Oh, no, what is a tax invoice?' The answer is: 'It's a VIP—very important paperwork. A tax invoice is a record of a transaction that your customers will need when claiming credits and you will get them from your suppliers to claim credits when required.' If you have a turnover of less than \$50,000 and decide not to register for the GST, forget any business wanting to buy your services, because you will not be able to provide ABN numbered tax invoices to allow them access to GST credits for the items you have provided.

Question 29 asks: 'Does that mean extra paperwork?' The answer is: 'You bet. You will have to set up systems to issue tax invoices and record details for the business activity statements.' This brings clearly back to my mind my first question in the House to the Prime Minister. I asked him whether he had read the regulatory impact statement released by the government on the GST, which shows gross compliance costs to Australian business of \$1.9 billion a year and a further \$300 million a year in administrative costs to be borne by the Australian Taxation Office—a total dead weight burden on the Australian economy of \$2.2 billion dollars a year. I asked if he agreed with me that he was right on 12 March 1981 when, as Treasurer, and in respect of his last great tax adventure, he told the House that:

A multi-stage VAT was rejected fairly quickly because it would have imposed an enormous paperwork burden on both taxpayers and collecting authorities.

His answer was as follows:

I certainly am aware of the regulatory impact statement and I am certainly aware of the statement I made to this House in 1981, which followed a very vigorous internal debate inside the then government. Those who were around at the time will be very well aware of the vigour of that debate. I was making a statement on behalf of the government as Treasurer at that time.

I have never disguised the fact that, over the last 20 years, I have argued both in and out of government for the reform of our taxation system. And it gives me immense pride, as we come towards the end of this parliamentary session, that this is the week that the government I lead—in which the honourable member for Higgins is the Treasurer—after 25 years of need has finally matched the national need and introduced taxation reform.

What really matters is that this is the government that, after all the opportunities former governments—both Labor and Liberal—have had, has finally bitten the bullet; this is the government that has done the job in the national interest. I applaud the Australian people's courage—

At that point I raised a point of order on relevance because the Prime Minister's answer had nothing to do with the administrative burden that this tax package is going to put on the Australian business community. He followed with the real answer:

Of course, with any change there are burdens, but there are also greater benefits. The cash flow benefits of a broad based indirect tax far outweigh any of the burdens. If you just read one side of the ledger you will always get a negative, miserable outcome. If you read both sides of the ledger you will get a glorious future for the Australian economy.

I do not think so, Prime Minister, and I doubt that there will be many people in small business after 1 July who do either. You got it right on 12 March 1981, even though others had to make you say it.