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Submission to Productivity Commission:

The current arrangement that allows goods and services to be purchased over the internet and imported into the Australian market free of duties and more importantly GST is an increasing burden on all sectors of the Australian business community.

The ongoing failure of successive Governments to address this problem is increasingly affecting all Australian business and eroding current and future revenue for State Governments and the services that they offer by reducing their major source of revenue – GST.

Most consumers agree that the current situation is unfair and see no reason that GST and applicable duties should not be collected and that in many cases state it will not affect their use of the internet. The main objection raised is the cost of collection and that cost would out weigh the gains in revenue and it is this premise that both sides would agree on.

I believe a system already exists that can provide the natural efficiency of collection that the GST currently offers the Australian Federal Government.

Australian Banks as the point of GST collection:

When overseas transactions were originally offered by the major banks with international credit cards all transactions were generally free of any fees and the banks made their money by taking a profit on the exchange rate on the day. Many small businesses took advantage of this as a means of paying for goods and services from overseas suppliers by allowing them to bypass the inefficiency and costs associated with such traditional instruments as Bank Money Orders. Over time new fees were added to this service and these have risen from 1% to 3% over a short period of time. These service fees have many names but generally they are described as an International Transaction Fee. When queried about the definition they are described as an additional charge on all overseas purchases when using the selected credit card.

This charge has been added by the Australian Banking sector and to do so they have clearly identified all overseas sales at the point of sale.

This leads me to ask this committee the following question:

What is the difference between collecting 3% or 13%?

Credit cards are the channel that all Internet transactions must move through so any examination where the GST can be collected cost effectively must regard the credit card as the cash register for cyber sales.

Collection of tax in cyber space:

The collection of applicable taxes in the fluid world of the Internet with shopping carts is a growing problem to all developed economies. These tools allow overseas business to clearly compete within the Australian market without any of the costs associated with an Australian based business with an ABN, regardless of how they choose to generate their sales even if they operate in the same internet space.

The axis for all this economic activity is the credit card. It is the channel through which all transaction must travel through. There are other options but generally they are more costly, time expensive and inconvenient and it is the convenience that is one of the pillars that sales on the Internet have been built on.

Therefore the pillar that tax collection must be built on is also the credit card. This will require the Australian government to carefully adapt this tool and utilize the existing international transaction fees to detect overseas purchases and have the banks apply GST at this point.

Advantages of tax collection via credit card:

It is clearly understood that Australian Customs currently is having problems dealing efficiently with the growing number of formal customs clearances and any move to collect GST and other applicable taxes at or near the OECD average of \$US35 would require the collection of those charges by a third party.

This mechanism to collect tax using the credit card would offer gains to the Australian economy by the increased economic activity.

Some of the possible gains are outlined in point form below:

- Increased GST revenue to all Australian State Governments.
- Increased tax collection to the Federal Government for PAYEE, PAYG and GST provided by Australian business sector.
- Increasing Superannuation savings by Australian employees.
- Allowing Australian Customs to undertake their real task as the enforcers of Australian law and regulation by freeing up officers currently engaged in tax collection.
- Collection of tax using Credit Card allowing the Australian Government to collect tax in the growing areas as Ebay, Ebooks, EMovies, iTunes and service industries such as Google adds where currently little or no tax is collected. In fact any areas of activity using credit cards and the Internet.
- Negating the use of invoices of depreciated value and false declarations by the international providers.
- Allow the introduction of a **zero** exemption for GST for all overseas purchases as sought by the National Retailers Association.

Handling GST free Overseas Sales:

One of the areas that would have to be examined is when overseas sales are genuinely free of GST such as when the card holder is traveling overseas.

Where GST has been paid this could be addressed in the same manner as GST free sales are currently handled where the GST is reimbursed to the card holder's account by the Australian Taxation Office.

When the GST has been added to a credit card statement, a signed declaration could be attached to the credit card account stating the amount of GST that is not payable as the charges were incurred when the card holder was overseas. This area of tax evasion could be easily detected by the ATO and acted on using current legislation and penalties.

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