



6 July 2011

Productivity Commission
GPO Box 1428
Canberra City ACT 2601
Australia

Dear Mr Gilfillan

GST COLLECTION ISSUES

Thank you for your correspondence of 9 June 2011 in relation to Australian Goods and Services Tax (GST) collection issues.

We understand from your communications that the Productivity Commission (PC), as part of your Economic Structure and Performance of the Australian Retail Industry inquiry (Inquiry), is examining a range of issues in relation to GST and imported goods.

Visa made a substantive submission to the Inquiry on 20 May 2011. In that submission we made several observations about the size and scale of online commerce, as well as the need to put the current size and growth of such commerce into relative proportion.

We now also understand that as part of the Inquiry you have asked Visa whether financial intermediaries could charge customers GST on top of transaction amounts for goods being purchased from outside of Australia, either online or through other means, and for this amount of money to be then forwarded to the Australian Government. You have also asked a range of technical questions associated with this issue.

Whilst we obviously cannot comment on the position of other financial intermediaries, in short, Visa is of the view that *we could not perform* this function..It is noteworthy that Visa does not perform this role for any other jurisdiction globally.

The core reason for our inability to perform such a function is that no technical data solution exists to deliver the suggested collection outcome. It is important to also note that no Visa-controlled steps exist that would change this situation.

In addition, Visa would take this opportunity to raise important concerns over litigation and reputational risk as a further reason in addition to the abovementioned technical barrier.

Data technical barrier

Transactions on Visa cards used overseas, and this includes transactions through overseas-based merchants selling via the internet, are processed through the merchant's 'acquiring bank'. These acquiring banks then submit the individual transactions into the international Visa system, known as VisaNet.

The format of this exchange of data doesn't provide for detailed stock-keeping unit level data (known as SKU level data) which would be required, at a minimum, to perform the GST collection role.

VisaNet essentially processes the total invoice amount associated with a sale and not the individual sub-items, services or taxes included within that amount. For example, a transaction between an Australian online shopper and an online trader based in Germany for \$122.50 may be entered into VisaNet by a German acquiring bank. However, from this entry it is not possible to extrapolate that the imposition of a 10 percent GST levy would require the transaction to be increased by \$12.25, as the original amount of \$122.50 will almost certainly have been made up of goods, some of which may have been and some of which may not have been subject to GST. In addition the total transaction amount would include payments of local taxes and charges, shipping costs, any local credit or debit card usage surcharges, Dynamic Currency Conversion fees and exchange rate costs, among many other things.

Transactions do carry a Merchant Category Code (MCC) but this provides us with the ability only to track general information about the nature of transaction, that is, what type of merchant was involved. There is no data granularity to support the many different goods or services a merchant may offer.

Furthermore, with Visa cards being accepted in over 200 different jurisdictions the quality of the merchant and acquirer entered data across many of these jurisdictions varies widely in terms of content and accuracy. As such, the technical data upon which Visa would attempt to levy and collect any additional fees, taxes or charges could not be relied upon to be complete or accurate for the proposed purpose.

Litigation and reputational concerns

Visa is deeply concerned about the litigation risk that could arise should an importation GST collection function be imposed on us. As outlined above, we have data technical barriers that make fulfilling this role impossible.

Should we be requested or required to do so regardless of this stated fact, it is almost certain that the GST amounts collected would frequently be incorrect. Equally, GST would likely be erroneously collected on a range of items that are GST exempt. These errors would expose Visa to considerable and unacceptable legal and also reputational risk.

We genuinely appreciate the PC seeking our views on this issue. We hope that both this correspondence and our earlier substantive submission were of assistance.

Yours sincerely

Adam Wand
Head of Public Affairs
Australia, New Zealand and South Pacific