

1.2 GOODS AND SERVICES TAX (GST) AND THE BUDGET

From 1 July 2000, government agencies will generally pay an additional 10% GST on all purchases of goods and services. Provided that agencies hold tax invoices for their purchases this GST can be reclaimed from the Australian Tax Office. This recovery of GST is known as an 'input tax credit'.

Since any GST paid can generally be reclaimed, no increase in departments' net costs are expected, other than a change to cashflow. Input tax credits cannot be claimed until the month following the associated purchase. That is, GST paid on purchases in July 2000 will not be refunded until August 2000. Departments will need to manage this cashflow within their normal operating investment and cashflow regime.

Departmental appropriations are made on a net basis. This means revenue may be kept and used on the functions from which it was generated. As a result, there is no need to adjust departmental appropriations upward by 10% to take account of the GST.

Territorial appropriations, which are made on a gross basis, will need to be increased to take account of the GST. Input tax credits relating to territorial expenses will be returned to the Budget. Examples of territorial appropriations are the payments to the Australian Federal Police for the purchase of policing services.

The Legislative Assembly will be asked to consider amendments to the *Financial Management Act 1996* at the same time as the 2000-01 Budget, to ensure that there are no impediments to:

- an agency paying the GST to the Australian Tax Office (ATO) - that is, onpassing the GST that government agencies collect on the sale of their goods and services; and
- an agency using the input tax credits returned from the ATO on the GST paid on purchasing goods and services from a supplier.

The introduction of the GST will be accompanied by the abolition of wholesale sales tax (WST). Although the Government is exempt from WST on its purchases, this exemption only counts at the final point of sale. Most goods have some degree of WST embedded in their final price, for example WST paid by suppliers when purchasing computers. The abolition of WST will mean that the cost of many goods purchased by government will actually fall. Agencies' appropriations have been adjusted to reflect these expected cost reductions.

In the private sector the cost reductions resulting from the abolition of WST will be passed on to consumers in the form of lower prices. The Australian Competition and Consumer Commission (ACCC) will oversee this process. This option is not available to the ACT, NT, or the other States, as the Commonwealth Government has already clawed back the expected

savings. This amounts to \$8.5m for the ACT in 2000-01. With no savings left to pass on to customers, the government will be forced to increase most non-exempt fees and charges by the full 10% of the GST, on top of the usual indexation increases.

The Government has decided not to pursue savings from the community sector. This means that, unlike the government and the private sector, the community sector will be able to retain any savings realised as a result of the abolition of WST. As the Government will still be required to pay these savings to the Commonwealth, there will be a net cost to the ACT of \$0.5m in 2000-01, rising to \$1.9m by 2003-04.

ACT Government taxes and charges that are of a regulatory nature will be exempted from the GST by determination of the Commonwealth Treasurer under Division 81 of the GST legislation. These taxes and charges are detailed in the Commonwealth Treasurer's Determination "A New Tax System (Goods and Services Tax) (Exempt Taxes, Fees and Charges) Determination 2000". The list includes such taxes and charges as stamp duties, payroll tax, motor vehicle registration fees, and business registration fees.

Fines and penalties will not be subject to GST, as they do not constitute a taxable supply under the GST legislation.