

Catholic Church Insurances Limited Tax Reform Issues for Business

By now we have all heard about the Goods and Services Tax or GST. The government rhetoric of, 'its not a new tax but A New Tax System (ANTS)' does ring true when we consider all its implications. The impact on business will stem from understanding and administering the new tax system but also understanding its impact on your business' cash flows.

There are a number of vital issues each business should consider during this transitional phase:

Contracts spanning 1st July 2000.

If your business enters into medium to long term contracts and these span beyond 1st July 2000 then you may be exposed to an unknown GST risk. Do you know the answers to the following questions?

1. Has your business entered into any contracts that span beyond 1st July 2000?
2. What are the GST implications of each of these contracts on your business?
3. Have the necessary clauses been inserted into your contracts to ensure your business is not left out of pocket?

Registering for GST.

In order to participate in the GST each business must be registered. This process is due to start in November 1999 by the ATO. You may register via the Internet on www.ato.gov.au or by phoning 13 24 78. The government has set out thresholds that enforce registration, beyond that it is voluntary. Those thresholds are \$50,000 turnover and \$100,000 for non-profit organisations. Do you know the answers to the following questions?

1. Is your business required to register for GST, if not is your business better off financially registering for GST?
2. Have you considered when you are going to register for GST?
3. Have you made yourself familiar with the registration process?

Supplies

There are three types of supplies classified in the new legislation;

1. Taxable (attracts 10% GST);
2. GST Free (attracts no GST and Input tax credits may be claimable); and
3. Input Taxed (attracts no GST and Input tax credits are not claimable).

Every supply made to your business needs to be evaluated as GST is a transactional tax and not entity based.

Do you know the answers to the following questions?

1. Are you comfortable as to how to apply these classifications to your business' supplies?
2. Have you evaluated all your business' supplies and classified each of them?
3. What steps have you taken to ensure these classifications are correct?

Pricing

The government in return for imposing the GST has removed a number of taxes. The most beneficial removal is the Wholesale Sales Tax (WST). The government expects all businesses to go through a thorough process in re-pricing their supplies taking into account the removal of WST before applying the GST. They have appointed the ACCC to enforce this part of the legislation and have provided the ACCC with powerful tools to ensure the job gets done. Do you know the answers to the following questions?

1. Have you established what the impact of WST is on your business?
2. Do you know how the removal of WST will impact your prices?
3. Have you complete documentation on the evaluation process?
4. Will that process stand up to vigorous scrutiny by the ACCC?

Pay As You Go PAYG

Another part of the reform package is the introduction of PAYG, which brings together the payment of GST with the old PAYE tax, PPS and RPS. Do you know the answers to the following questions?

1. What is the impact on your business of PAYG?
2. When does it come into effect?

Accounting for GST

The timing of GST liability will depend on the method of accounting your business chooses. The GST will also raise questions on how to account for the GST in your business' accounts and fixed asset registers. Do you know the answers to the following questions?

1. Is your company allowed to account on the cash method based on the government thresholds?
2. Do you know what is included as turnover?
3. Will your company be better off through cash accounting or accrual accounting?
4. How will your current systems cope with the GST?
5. How will you report to the ATO for the PAYG?

Cash Flow

In many cases the GST liability to the ATO will not match the receipt of the GST from the client. This may leave a number of businesses short of cash (or induce cash flow problems). Do you know the answers to the following questions?

1. Do you know how to control your cash flow to maximise the GST cash flow benefits and reduce its costs?
2. What factors need to be analysed that may impact your cash flow?

Compliance Issues

Most businesses will find the compliance aspect of the GST the most challenging. Do you know the answers to the following questions?

1. What are tax invoices and what is their importance?
2. What information needs to be contained on a tax invoice?
3. What are adjustment notes?
4. What information needs to be contained on an adjustment note?
5. What is input tax credits?
6. What are the implications if we take an input tax credit?
7. How long must the use of expenses with input tax credits be monitored for?

These are only some of the issues that need to be addressed by ALL businesses in the coming months. We shall endeavour to provide you with some assistance in answering some of these questions in the coming months.

To assist you with working through the impacts of the GST legislation, we have compiled a list of website addresses that provide useful information on the GST and its effects.

Australian Taxation Office – www.taxreform.ato.gov.au

This site includes a host of materials associated with tax reform that have been legislated. The ATO also has a series of toll free numbers to answer queries on tax reform matters, with hours of operation 8am-6pm Monday to Friday:

Tax reform infoline – tax agents 137 286

Tax reform infoline – business and consumers 132 478

Wholesale sales tax rate reduction - business 1800 634 905

Mail queries on tax reform can be sent to PO Box 9935 in your capital city.

Other general ATO material can be found at www.ato.gov.au

Treasury – www.treasury.gov.au

This site includes Treasury publications relating to tax reform, and has links to the Treasurer's site that is updated periodically to include media releases and interview transcripts. Links to the Assistant Treasurer's site are also found here.

GST Startup Assistance Office – www.taxreform.gov.au

This site contains information about the GST Start Up Office which is responsible for the administration of the \$500 million the Government has allocated to assist with start up costs of small and medium sized enterprises, and the education and charitable sectors. Enquiries should be directed to 02 6263 4490 (phone) or 02 6263 4422 (fax).

GST on Insurance Starts Now

GST will have to be paid on insurance policies being sold from 30 June 1999, despite the fact that the new tax system does not come into effect until July 1, 2000, the Insurance Council of Australia (ICA) has warned.

The ICA has announced that the general insurance industry will be telling its 30 million policyholders of the impact of the GST and the transitional arrangements the Government has imposed on insurers despite strong arguments that it is unfair.

“The GST legislation has a number of special impacts on insurance,” ICA chief Executive, Alan Mason, said. “Insurers typically send out policy renewals six weeks ahead. That means policies are being sold now which will run from say, August 1999 to August 2000. That portion of the policy which runs after July 1, 2000 will attract GST, which will have to be paid by the insurer to the Government. “We believe it is important to inform policy holders now of how the introduction of GST will impact on insurance policies which have an expiry date post July 1, 2000.

“Even after taking into account the various offsets arising from the tax package, such as the abolition of wholesale sales tax, it is expected that the cost of many claims will rise because of the GST and the overall tax package. For example, we expect an increase in the cost of some goods and services used in the repair of buildings to affect home insurance. Further, the introduction of the GST combined with other impacts of the Tax Reform package may effect

the size of some court damages judgements, and thus increase the cost of claims in liability classes.

Insurance companies are legally obliged to set aside provisions to meet potential claims in the future. For instance, a premium on a policy might be paid before the proposed GST implementation on July 1, 2000 but the claim might not be paid until after that date when the price of things such as building materials has increased,” Mr Mason said.

“If premiums are to reflect the cost of settling claims, input tax credits and the effect of the GST on the premium, they will need to be reviewed before July 1, 2000,” he said.

“As a result of this, insurance companies are considering adjusting premiums to take account of the net effect of the Federal Government’s GST and tax package on premium notices issued after the legislation is passed by Parliament.”

Mr Mason also said that all policyholders would need to review their insured values to reflect the new prices of goods and services after the GST comes into force. This applied equally to private policyholders and to registered (business) policyholders.

He said individual insurance companies will decide the exact impact on their customers and they will inform their policyholders of precisely how their policies will be affected.

Reproduced from the Insurance Council of Australia media release website page – www.ica.com.au

Tax Reform – www.taxreform.gov.au

This Government site contains information on tax reforms that have been announced, but not yet legislated. The hotline for this material is 13 30 99.

Parliament House – www.aph.gov.au

The ‘legislation’ menu from the home page at this site includes tax reform bills and Acts, explanatory memoranda and amendments to tax reform bills. Much of this information is available within days of the legislation being introduced into Parliament, though in some cases there are delays. Hard copies of these materials can be obtained from the Tax Reform Legislative Unit on 02 6277 6390 (phone) or 02 6273 3455 (fax). The Parliament House site also has contact details for all members of Parliament.

Review of Business Taxation – www.rbt.treasury.gov.au

This site includes all materials relating to the Ralph Review of Business Taxation, including the RBT Reports, submissions and media releases.

Business Entry Point – www.business.gov.au

From 1 November 1999, Business Entry Point will provide the online access point for any one wishing to register their business online for the Australian Business Number, an essential component of being ready for GST. From early 2000, Business Entry Point will provide the online search facility for the Australian Business Register.

continued on page 4

continued from page 3

Australian Competition & Consumer Commission (ACCC) – www.accc.gov.au

This site includes useful information on how the ACCC will be monitoring the price impacts of tax reform. ACCC Pricing Hotline 1300 302 802.

GST and Financial Services – www.kpmg.com.au

KPMG Taxation Brief providing commentary and opinion on Treasury's release of regulations regarding GST and Financial Services

Deloitte Total GST Solution – www.deloitte.com.au

Deloitte provide a total solution approach to the implementation of the GST. This site includes a GST Timetable and Key Planning Issues to ensure a smooth transition for your business.

Ernst & Young GST Ready – Time to Begin Planning – www.ey.com.au

With the Goods and Services Tax (GST) legislation now passed into law, corporate Australia must begin serious planning for the introduction of the new tax regime. Find out more about the issues, risks and opportunities and impact of GST on IT and Business Systems in our GST Ready site.

PREPARING FOR GST

GST Checklist for 1999

- Categorise business activities: GST taxable: GST Free: input-taxed
- Review existing contracts, leases and agreements for GST impact
- Ensure new agreements have a GST review clause
- Plan timing of equipment purchases
- Update accounting and record-keeping procedures.

GST Checklist for early 2000

- Review operating procedures, train staff
- Upgrade accounting software and record-keeping
- Order GST-compliant tax invoice stationery
- Plan for cash flow implications
- Register for GST before June 1, 2000
- Prepare GST-inclusive pricing strategy



Please note that this CCI GST Alert should not be used or relied on as a substitute for detailed professional advice or as a basis for formulating GST decisions.