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Tax Consultative Committee

13 November 1998

The Hon Peter Costello MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

We are pleased to present the report of the Tax Consultative Committee.

The Committee acknowledges the many submissions received from individuals and organisations with an interest in our deliberations.

Within the context of the Committee's Terms of Reference, and the time given to complete the task, we believe our recommendations provide a reasonable basis for the Government to finalise the scope of the Goods and Services Tax.

The Committee wishes to record its gratitude for the assistance provided by both the Secretariat and those Commonwealth officers from whom we sought background information.

Yours sincerely

David Vos
Chairman

Peter Tannock

Judith Whitworth

Members of the Committee

Mr David Vos, Committee Chairman

Mr David Vos, the Committee Chairman, is a tax Partner at PricewaterhouseCoopers, in its Sydney office. He is that firm's Australian leader of its GST practice and is recognised as one of Australia's authorities on indirect taxes. David was a member of the GST planning and Coordination Office established in 1991. He is the spokesperson for the Institute of Chartered Accountants in Australia on indirect tax matters and tax reform generally. David is a fellow of the Institute of Chartered Accountants in Australia, the Australian Society of CPA's and the Tax Institute of Australia.

Professor Peter Tannock

Professor Tannock is Vice Chancellor of the University of Notre Dame Australia. He is also Chairman of the National Catholic Education Commission. He was Professor of Education and Dean of the Faculty of Education at the University of Western Australia, and has held fellowships at the Johns Hopkins University, the Australian National University and the University of London. He was formerly Chairman of the Commonwealth's Schools Commission.

Professor Judith Whitworth

Professor Whitworth is the Commonwealth Chief Medical Officer and Professor of Medicine, University of New South Wales at St George Hospital, Sydney. She is a past President of the Australian Society for Medical Research, past Chair of the Medical Research Committee of the National Health and Medical Research Council and a former Councillor of the Royal Australasian College of Physicians. Professor Whitworth joined the Committee in an individual capacity.

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Chapter 1

Terms of Reference and Recommendations

Background to the Committee

On 13 August 1998 the Prime Minister announced a wide ranging reform to Australia's taxation system. The reforms were documented in the publication *Tax Reform: not a new tax, a new tax system*. The Government's goals were as follows:

- significant reductions in personal income tax through an increase in the tax free threshold and decreases in all marginal tax rates except the top rate. This measure is estimated to be worth around $13 billion a year and means 80 per cent of taxpayers will have a top marginal tax rate of 30 per cent or less;
- a better interaction between the tax and social security systems so that there are increased work incentives. This is to be achieved through a combination of reduced personal income tax rates on additional private income and a substantial easing in the income test for family payments as private income is increased;
- increases in family assistance combined with a simpler structure and delivery of family assistance; and
- replacing wholesale sales tax and nine State and Territory Government taxes with a GST which will be locked in at a rate of 10 per cent.

The package foreshadowed a targeted consultation process, to be undertaken by a Tax Consultative Committee, to assist in determining the final design of five key matters in the GST.

Terms of reference

The Tax Consultative Committee was appointed by the Treasurer, the Hon Peter Costello MP, on 26 October 1998. The Treasurer announced the Committee's terms of reference on 27 October 1998 as follows:

1. *The Government announced, in* Tax Reform: not a new tax, a new tax system, *that a distinguished Australian would be appointed to chair a Tax Consultative Committee to assist the Government in targeted consultation on outstanding GST design issues.*
2. *The design issues the Government requires assistance with are determining the scope of four of the GST-free areas as follows:*
   - *health;*

- *education;*
- *religious services; and*
- *non-commercial activities of charities.*

3. *The Committee will also consult on specified transitional arrangements relating to motor vehicles.*

4. *In framing its recommendations to the Government, the Tax Consultative Committee will need to:*

   - *take into account the policies laid down in Tax Reform: not a new tax, a new tax system and other Government announcements in these areas;*
   - *ensure the tax system minimises any discrimination between private and public provision of goods and services in the GST-free areas;*
   - *ensure business and charitable organisations are treated on an equivalent basis where they provide similar goods and services on a commercial basis to consumers;*
   - *ensure the recommended scope of the GST-free areas are as simple and clear as possible;*
   - *ensure the resulting compliance and administrative costs of its recommendations are kept to a minimum; and*
   - *ensure its recommendations do not have significant adverse revenue impacts.*

5. *Given the Government's proposed implementation timetable for tax reform, the Tax Consultative Committee will report its recommendations to the Government by 13 November 1998 in a form readily transferable into legislation.*

6. *The Committee may invite submissions and seek information from any persons or bodies to assist in reporting to the Government. Policy and implementation issues raised with the Committee that fall outside the scope of this consultation process will be immediately referred to the Government's Taxation Reform Task Force.*

Summary of recommendations

The Committee's recommendations are as follows:

Health

Medical (health) services

Recommendation 1

GST-free treatment should apply to:

- Clinically relevant health services provided by a registered medical practitioner (as defined in section 3 of the *Health Insurance Act 1973*).
  - Including those services provided on behalf of a medical practitioner such as nurses, audiologists, radiographers — as outlined in paragraph 12.2 of the Medicare Benefits Schedule and section 3AA of the *Health Insurance Act 1973*).
  - **Excluding** certain medical procedures (primarily cosmetic surgery such as tattoo removal) specified in paragraphs 13.2.4 and 13.1.2 of the Medicare Benefits Schedule.
- Commonly used health services as listed in *'Tax Reform: not a new tax, a new tax system'* together with the additional services below:
  - osteopathy;
  - chiropody;
  - speech pathology;
  - audiology, audiometry;
  - ambulance;
  - paramedical;
  - nursing;
  - aboriginal health services;
  - social work services;
  - pharmacy; and
  - psychology.
- Listed services must be clinically relevant and be of the type normally supplied in that profession. The practitioner must also be a member of a relevant professional body subject to State government professional registration or uniform national professional self-regulation.

- Services, such as coordination services, funded through Commonwealth and State Government programs that are integral to the delivery of qualifying health services for patients.
  - Such services should be GST-free where they are approved by the Minister for Health and Aged Care as essential for patient welfare.
- Ambulance subscription fees should also be GST-free.
- GST-free treatment should also extend to goods provided as part of the service and administered on the premises where the service is performed.

Hospital services

Recommendation 2

GST-free treatment should apply to:

- Public hospital services as defined in the Australian Health Care Agreements 1998-2003 (and subsequent agreements) between the Commonwealth and States; or replacement agreements, except for those services defined under paragraphs 13.2.4 and 13.1.2 of the Medicare Benefits Schedule; and
- Hospital treatment as defined in section 67 of the *National Health Act* 1953 delivered to private patients (whether covered by private health insurance or self-insured) by a private hospital (as defined in subsection 3(1) of the *Health Insurance Act 1973*) or by day hospital facility (as defined in subsection 4(1) of the *National Health Act 1953*) except for those services defined under paragraphs 13.2.4 and 13.1.2 of the Medicare Benefits Schedule.
- GST-free treatment should also extend to goods provided as part of the service and administered on the premises where the service is performed.

Residential care

Recommendation 3

- The supply of goods and services listed in the *Quality of Care Principles* (subordinate legislation to the *Aged Care Act 1997*) and provided by ‘qualifying institutions and projects’ should be GST-free.
  - Goods and services listed under the *Quality of Care Principles* are broad ranging and include accommodation and maintenance of buildings and grounds, personal care services, treatments and procedures, recreational therapy, a limited range of furnishings, and bedding. These services do not include additional items such as television hire and hair dressing.

Qualifying institutions and projects are those:

- Funded under the *Aged Care Act 1997*.

- Funded under the *Disabilities Services Act 1986* or complementary State or Territory legislation.
- Funded privately, but assessed by the Commonwealth as providing services similar in nature and objective to *Aged Care Act 1997*.
  - Decisions on assessment arrangements, and whether cost recovery should be part of any Commonwealth assessment, to be decided by the Minister for Health and Aged Care.
- Funded under annual appropriations through the Health and Aged Care and Family and Community Services portfolios or equivalents in the States and Territories, and approved by the Minister for Health and Aged Care, as providing services similar in nature and objectives to facilities funded under the *Aged Care Act 1997*.

Community care

Recommendation 4

GST-free treatment should apply to:

- services funded under the Home and Community Care (HACC) program;
- services provided to a person residing at home under the *Aged Care Act 1997*;
- services provided to a person residing at home and funded under the Health and Aged Care or Family and Community Services portfolio and approved by the Minister for Health and Aged Care as being similar in nature and objectives to HACC services;
- services provided to a person residing at home and funded through State and Territory budgets and approved by the Minister for Health and Aged Care as being similar in nature and objectives to HACC services; and
- daily living activities assistance services purchased from the private market, as set out at item 2.1 of Schedule 1 of the *Quality of Care Principles* and provided in the person's own accommodation.

Disability services

Recommendation 5

- The Government should not extend GST-free treatment for disabled services beyond its recommendations regarding residential care and community care.

Medical appliances and aids

Recommendation 6

- The committee recommends that the list of appliances and aids (as set out on pages 41 — 45) should be given GST-free treatment where they are specifically designed for people with an illness or disability and are not of a kind ordinarily used in the wider community.

Drugs and medicines

Recommendation 7

GST-free treatment should apply to:

- drugs and medicines that can only be provided on prescription (S4 and S8 items on the Standard for the uniform scheduling of drugs and poisons);
- drugs and medicines that can only be sold within a pharmacy under the advice of a pharmacist (S3 on the Standard for the uniform scheduling of drugs and poisons); and
- Schedule of Pharmaceutical Benefits (PBS) and Repatriation Schedule of Pharmaceutical Benefits (RPBS) products provided on prescription.

Education

Recommendation 8

- That courses and institutions qualifying for GST-free treatment be determined by reference to, but not limited to, the Education Minister's Determination of Education Institutions and Courses under Subsections 3(1) and 5(D) of the *Student Assistance Act 1973*.
- In accordance with the Determination, GST-free treatment to apply to:
  - recognised secondary schools;
  - recognised special schools;
  - recognised Technical and Further Education institutions;
  - recognised Higher Education institutions;
  - recognised Non-government Higher Education institutions;
  - recognised Non-government Registered Training Organisations;
  - approved Secondary or Tertiary courses conducted in approved educational institutions. In general, the approved courses rely on accreditation by the relevant State or Territory registration authority;

— accredited vocational educational and training courses excluding recreation leisure and personal enrichment courses activities, or 'hobby' courses;

— English as a Second Language, Adult and Community Education, bridging, preparatory and remedial literacy and numeracy courses provided they are accredited with the relevant State or Territory accreditation authority and are not classified as 'hobby' courses.

Recommendation 9

♦ In addition to those institutions and courses identified by the Determination, additional legislative provisions should be made so that GST-free treatment apply to:

— recognised kindergartens, pre-schools and primary schools;

— private-for-profit schools delivering curriculums recognised by the relevant State / Territory Education Department;

— recognised special education centres;

— recognised Masters and Doctoral level courses; and

— English language courses for overseas students, or combination English language and other courses for overseas students provided by an approved provider accredited to provide English language courses to overseas students by the designated State or Territory authority.

Recommendation 10

♦ The GST legislation needs to reflect the notion that 'tuition' provided by an educational institution extend to include any activity undertaken by the educational institution which occurs during the delivery of the course and is directly related to the curriculum. This would include:

— teaching the course;

— activities associated with the course, such as library and computer access;

— course materials such as photocopied educational materials, taped lectures, lecture notes;

— the supply by the institution of goods that are necessarily consumed or transformed as part of the course;

— the assessment and issuing of qualifications relating to the course;

— curriculum related field trips and excursions;

: This would apply to payments for primary and secondary school excursions (including travel but excluding the food component) and to tertiary excursions (excluding the food and short-term accommodation components). Both must directly relate to the curriculum being undertaken.

  - compulsory administrative charges, including general service fees (other than fees for membership to an association); and
  - the assessment and issuing of qualifications by an organisation or education institution that is registered by the relevant State or Territory training recognition authority in accordance with the Australian Recognition Framework to provide skill recognition (assessment only) services.

Recommendation 11

- That private tuition be taxed except where a recognised institution, including a University College, engages private tutors, for example music or sports specialists, to provide tuition on behalf of the institution.

Recommendation 12

- In terms of accommodation:
  - the supply of accommodation by an educational institution on its premises to students of the institution, provided the institution is a recognised primary or secondary school, be GST-free;
  - accommodation provided by tertiary institutions to students undertaking a tertiary course or a post-graduate course is to be treated as residential accommodation (that is, input taxed);
    - educational and religious services should remain GST-free where provided by a University College.

Recommendation 13

- If boarding school accommodation or university accommodation is provided to a person who is not undertaking a GST-free education course, then this accommodation should be treated on the same basis as that applying to ordinary short-term or long-term residential accommodation.

Recommendation 14

- The GST-free status of rural student hostels to be:
  - as for boarding schools, the boarding school element of boarding costs at an accredited rural student hostel should enjoy GST-free status in respect of students attending schools primary and secondary schools recognised under the Determination and who reside in the hostel in school term time.
    - A rural student hostel might be defined as a hostel in a State or Territory that is conducted by a government or non-government body and whose primary purpose is to provide accommodation for students from rural areas who are undertaking an educational course.

: If the hostel provides accommodation to a person who is not undertaking a GST-free education course, then this accommodation should be treated on the same basis as that applying to other commercial accommodation.

Recommendation 15

♦ In terms of equitable treatment with the business sector for which the Government has earmarked some $500 million, the Committee recommends that the education sector should share in these funds.

Recommendation 16

♦ In the case of institutions which have a mix of taxable and non-taxable activities, the Government should consider introducing a simple apportionment rule whereby the institution claims credits based on the proportion of its total activities which are not input-taxed.

Recommendation 17

♦ To help minimise the compliance costs of the GST, the Committee recommends that where an organisation has no income tax liability, such organisations be allowed to account for the GST on the same basis as they maintain their accounts.

Recommendation 18

♦ Independent non-profit research institutes be entitled to the same treatment as universities with regard to their research activities.

Religious services

Recommendation 19

GST-free treatment should apply to a service provided by a religious institution:

♦ which is integral to the practice of that religion; and

♦ is not of a kind ordinarily delivered by a non-religious organisation.

Non-commercial activities of charities

Recommendation 20

The Government should adopt an approach that defines a 'non-commercial' supply by a tax deductible body as:

♦ a supply of donated second-hand goods; or

- a supply that is for nominal or insubstantial consideration.

'Nominal or insubstantial consideration' is a payment of a price that is less than 50 per cent of the normal market value of the supply.

Motor vehicles – transitional arrangements

Recommendation 21

- The Committee has considered a range of options to mitigate the transitional effects on the motor vehicle industry. The Committee believes that any transitional arrangements should be considered in the context of the substantial long term benefits to the motor vehicle industry in Australia.
- The Committee acknowledges the claims being made by the industry that there will be significant disruption as a result of the Government's proposed transitional arrangements. The Committee does not believe it is in a position to fully assess the precise validity of these claims. Indeed the Committee believes that the nature of the available data is such that it may be impossible to form definitive conclusions about the precise impact on various sectors of the motor vehicle industry. The Committee is also aware that industry participants have already begun to plan purchases and generally modify their behaviour in response to the Government's announced policy.
- Against this context, the Committee believes that, on the basis of the information available to it, the Government's announced policy is not an unreasonable response to the difficult issues faced by the motor vehicle industry in the transition period. However, the Committee believes that the Government should fully satisfy itself that the sectoral impacts are acceptable.
- Finally, the possibility of allowing a deferred *input tax credit* in respect of purchases of motor vehicles post 1 July 2000 would help to clawback the reduction in business costs effective from that time. It would also allow businesses the time to adjust to the overall impact of price reductions of motor vehicles on a net/net basis.

Review mechanism

Recommendation 22

- The Government should establish a formal and ongoing review Committee whose role it would be to provide periodic advice to the Treasurer in relation to the various issues or anomalies that will inevitably arise; and
- that the legislative implementation of its recommendations on GST-free activities should be flexible enough to accommodate correcting these anomalies at short notice.

Compliance costs

Recommendation 23

- The Committee recommends that the Government ensure that entities dealing with largely GST-free activities be entitled to participate in GST implementation funding. The Committee believes this would be appropriate given that the extra compliance costs due to the start-up phase of the GST will apply to all those in the GST system and not just those who will be net remitters of tax.

Chapter 2

Context

Approach to the task

The Committee's task was challenging. It was required to review some complex areas of the design of the GST within a limited timeframe. The challenging nature of this task was accentuated by a widespread lack of understanding of the detail of the Government's proposed GST in the context of tax reform, as well as a general lack of public understanding of the Committee's role.

In view of this, there are several issues the Committee wishes to record to ensure its recommendations can be properly viewed.

The Committee's role

The Committee considered its main function was to identify the appropriate boundaries for the GST-free areas it was considering, as well as the appropriateness of the proposed transitional arrangements for motor vehicles. Its role was not to recommend changes to government policy nor was it to consider areas outside its terms of reference. In particular, a number of submissions raised issues relating to the general impact of tax reform, including the proposed reforms to the Fringe Benefits Tax. Clearly, the Committee could not make recommendations in these areas.

- ♦ The Committee has passed all relevant submissions on to the Taxation Task Force for their consideration of the issues raised.

Public inquiry not possible

The Committee decided that, in view of the timeframe given to it by the Government, it would not be possible to undertake a full public inquiry or to consult with individuals or groups. A number of interested parties provided written submissions and the Committee considered all those submissions in framing its recommendations. The Committee intends to provide a written response to each of these submissions.

What the Committee took into account

To ensure it was fully informed of the issues the Committee had regard to the following sources:

- details of the Government's proposed GST as outlined in *Tax Reform: not a new tax, a new tax system* as well as other Government announcements in relation to tax reform;
- information provided in the over 300 written submissions received by the Committee;
- information provided in submissions to the Gibson Inquiry, although this information was of a general nature and not directly related to the issues requiring consideration according to the Committee's Terms of Reference;
- the Committee's own personal knowledge of the relevant areas; and
- advice from officials in several Commonwealth Departments and Agencies — the Departments of Education, Training and Youth Affairs, Family and Community Services, Health and Aged Care, the Treasury, and the Australian Taxation Office.

Further review

The Government is aware that the GST base will need to be changed and has stated:

> '*The Commonwealth recognises that changes may be needed in the future with new developments in the business world, new technologies, and court rulings on tax matters.*'

While the Committee believes that it has obtained sufficient information to provide sound recommendations, because of the scope of the areas in question and the short time-frame in which to consider the issues, there may be some areas that were not drawn to the Committee's attention.

The Committee therefore considers that the Government needs to adopt a process whereby future changes to the GST-free areas can be made to correct anomalies and inequities that may have arisen.

Accordingly, the Committee recommends:

- the Government establish an ongoing formal review Committee whose role it would be to provide periodic advice to the Treasurer in relation to the various issues or anomalies that will inevitably arise; and
- that the legislative implementation of its recommendations on GST-free activities be flexible enough to accommodate correcting these anomalies at short notice.

Structure of the Report

Given the importance of having a clear understanding of the Government's proposed GST, particularly in respect of GST-free activities, the Committee considers it is necessary to explain its operations. Chapter 3 does this as well as explaining how the GST operates in particular circumstances that appeared to be of interest to many who made submissions.

Chapters 4, 5, 6 and 7 deal with the four GST-free areas requiring the Committee's attention (ie health, education, religious services and non-commercial activities of charities) and Chapter 8 deals with the issues relating to transitional arrangements for motor vehicles.

The Appendix lists all those who made submissions to the Committee.

The Appendix also reproduces the relevant text of *Tax Reform: not a new tax, a new tax system* as well as other Government announcements that were relevant to the Committee's subject matter.

Finally, the Acts, Agreements, Determinations and other legislative instruments that are referred to in the report are documented as reference material. The legislation itself is not reproduced — too much volume would be required — but the titles are noted to provide ease of reference to readers of the report.

Chapter 3

The GST

Overview

As noted in Chapter 1, the Committee's role is to identify desirable boundaries for the GST-free activities, as well as the appropriateness of the proposed transitional arrangements for motor vehicles. This role has to be exercised in the context of a completely new indirect tax system, rather than looking at alterations to the existing indirect tax system.

Therefore, integral to understanding not only the Committee's recommendations, but also the process of reasoning that led the Committee to those recommendations, is an adequate understanding of both the proposed GST and the wholesale sales tax system (WST) it replaces. The Committee considers this to be important given the number of submissions that appear to have had difficulty in grasping aspects of the proposed GST that are crucial in understanding its impact on GST-free activities.

Many submissions were confused about what being 'GST-free' entails. They approached it from a WST mindset, where purchases by an exempt body (such as a non-profit school, university, public hospital or a public benevolent institution) are exempt from WST, rather than from a GST perspective where all purchases are GST-inclusive and then creditable to the registered purchaser.

To enhance understanding of the Committee's recommendations, the Committee considers it necessary to briefly outline the structure of the GST and, in particular, how the GST-free treatment of supplies of goods and services actually works.

A number of submissions focussed on whether a multi-stage value added tax system was appropriate, or whether a single stage system would be better. That is, a number of submissions, particularly within the education sector, considered the use of an exemption certificate or declaration, similar to that used in the current WST system would be appropriate. In the current tax reform context this would equate to advocating the use of a retail sales tax (RST), where goods and services are taxed only when they enter private final consumption. In such a tax system, where an entity purchases goods or services for its own use, such as a school purchasing desks or pens, there is no tax paid, with tax only being paid if the goods or services are on-sold into private consumption.

This is an area obviously outside the Committee's terms of reference, as it is clearly a matter of Government policy. The Government's preference for a multi-stage value added system rather than a RST is based on its view that there are are significant weaknesses with a retail sales tax. It is the Government's view that the RST would be more complex for businesses and administrators and would not be as reliable a source of revenue.

The mechanics of the GST

Tax Reform: not a new tax, a new tax system outlined a number of key features of the GST. The features the Committee considers most relevant to its deliberations are noted below.

The GST is a key element of the Government's indirect tax reform strategy. The Government proposes that the GST is to replace the wholesale sales tax and a number of State taxes. The Government has argued that the GST has the advantages of:

- applying to a broad base;
- applying only one rate to taxable goods and services;
- being paid on the final selling price; and
- not taxing business inputs.

The value-added concept

The GST will be based on the ‘value added tax’ model adopted by many other countries. It will be a tax of 10 per cent on the consumption of most goods and services in Australia, including those that are imported, but it will not apply to exports of goods, or services consumed outside Australia.

The GST is a multi-stage tax.

Registered entities, which the Committee was advised will include hospitals, schools, universities, gift-deductible charities and religious institutions, as well as normal businesses, will charge GST when they sell or otherwise supply goods or services to another registered entity or a consumer. When calculating their GST liability, the entities will offset the tax paid on their inputs (such as purchases of raw materials and machinery). This offset is referred to as an input tax credit. In this way, tax will be collected only on the value added by each business in the production and distribution chain, with the tax being ultimately paid by the final consumer. However, sales by one registered entity to another will be effectively GST-free.

If the tax collected on sales exceeds total input tax credits in a particular tax period, then the net difference will be paid to the Australian Tax Office. If input tax credits exceed the tax collected on sales, a refund can be claimed. For example, if a hospital buys computers and stationery for administration work and then only supplies GST-free health services, so that no tax collected in a given period but tax has been paid on the computers and stationery, the hospital will be entitled to a GST credit or refund.

Registration

Individuals, partnerships, companies, trusts and other bodies that engage in taxable activity will be required to register if their total sales will exceed $50,000 per annum. Non-profit societies, clubs and associations will only need to register if their total sales (including membership fees, but not donations) will exceed $100,000 per annum.

Although individuals, businesses and clubs with smaller annual sales will not have to register, they will have the option of registering if they wish. In particular, the Committee is advised that gift-deductible charities and religious institutions will be eligible for registration. If they do not register, they will not charge tax on their sales (outputs) or claim back tax paid on their purchases (inputs).

Input tax credits depend upon the entity being registered

An important element to the Government's proposed GST is that eligibility to receive credit for GST paid on inputs is dependent upon an entity being registered.

A common misunderstanding was that eligibility for credits was dependent upon the input being used in a GST-free activity. The Committee has been advised that entitlement to input credits under the proposed GST arises from the fact that a registered entity has purchased goods or services for use in their activities *irrespective* of whether they are linked to any sales. For example, the GST included in the price of goods and services purchased by a university for the purposes of research where no goods or services end up being sold, will be creditable to the university. That is, the Committee has been advised there is no requirement that inputs be traced through to outputs and credits claimed accordingly. A registered entity will simply be entitled to a credit for the GST paid on all their inputs within a particular tax period and be liable for GST on all their taxable sales in that period. This will mean that entities carrying on largely GST-free sales within a particular period will be in a refund position.

Taxable activity

A taxable activity is any supply of goods or services for a payment, whether in cash or kind. However, certain supplies will be excluded from the definition of taxable activity. For example, wages received by employees will not be taxable under the GST — in practice employees will not be caught up in the GST system. Private activities and some other supplies that will be input taxed (see below) will also not be taxable activities.

The GST base — very few exceptions

The Government has decided that the GST will apply to a very broad base, but some supplies of goods and services will not be taxable.

This will apply in some circumstances because imposing GST would be technically difficult (as in the case of financial services) or it would create inequities between private and public sector providers (as in the case of health and education).

GST will also not be imposed where the supply is not of a commercial nature. The most common example of this is in the charitable sector where goods and services are often given away (for example, a charity providing food and blankets for no charge). In such a case, no sale has occurred and so there will be no GST paid. There will also be occasions, most notably in religious services, where the particular supply has no commercial equivalent and so it would seem inappropriate to levy GST on the sale.

There will be two types of non-taxable supplies under the GST:

- supplies that are not taxed and where credit is allowed for tax paid on purchases (known as GST-free); and
- supplies that are not taxed and no credit is allowed for tax paid on purchases (known as input-taxed).

The main focus for the Committee is GST-free supplies.

Activities that are *GST-free*

Where activities are GST-free, a registered person will not charge tax on the sale of those goods and services, but will nevertheless claim back the tax paid on inputs. Other countries use the term 'zero-rated' to describe this type of activity.

An important point with respect to GST-free activities is that purchases of goods and services by an entity making GST-free supplies will not be GST-free unless the goods and services they are purchasing are themselves GST-free. An example is where a school purchases chairs and desks for use in the classroom. Even though they are for use in a GST-free activity, the school will purchase them GST-inclusive, and then be entitled to a credit for the GST paid on the purchase.

This position needs to be contrasted with the situation that currently exists under the WST. Schools are exempt from WST and they can purchase goods exempt from WST by means of quoting an exemption declaration (previously referred to as an exemption certificate) to the supplier who then is relieved from the requirement to charge the school WST.

Activities that are input-taxed

Some activities will be input taxed. These activities will not be taxable, but anyone selling them will not be able to claim credits for the tax paid on their inputs.

This approach has been chosen where it is technically difficult to impose GST on the sale of particular services, but it is not appropriate to allow the sale to be GST-free. Other countries use the term 'exempt' to describe input-taxed.

Certain classes of financial services will be input-taxed, as will rental of residential accommodation. The rationale for input-taxing residential accommodation is to ensure there is comparable treatment for renters with owner occupiers.

Facilitating implementation

The Government intends that the GST will start on 1 July 2000. This date has been selected to allow time for entities in the GST system to learn about the new tax and establish appropriate administrative systems.

The Government will provide financial support of up to $500 million for small and medium businesses to upgrade their record keeping capacity through software and hardware, so that the start-up costs of a GST are minimised. Business will be consulted through a Small Business Consultative Committee to ensure that this support is targeted and delivered in the most effective way.

The Committee recommends that the Government ensures that entities dealing with largely GST-free activities be entitled to participate in this GST implementation funding. The Committee believes this would be appropriate given that the extra compliance costs due to the start-up phase of the GST will apply to all those in the GST system and not just those who will be net remitters of tax.

Areas of special concern

There were a range of issues raised in submissions that the Committee considers arose mainly due to a misunderstanding of how the GST actually operates. The Committee considers these can easily be dealt with via an explanation of that particular part of the operation of the GST. The Committee considers it would be useful to deal with these in a general manner, so the principles can be understood and applied in a number of cases.

GST applies to the price paid

A basic principle of the GST is that it is only imposed on the price paid for goods or services. Where goods or services are given away, then aside from any tax avoidance issues, there will be no GST implications.

For example, where a public benevolent institution raises money through donations and then purchases food to give away, it will be entitled to receive an input credit for the tax paid on the food, and it will not be subject to any GST on the gift.

Transactions between registered entities result in no net GST

The GST will only have a net impact when there is a sale to an unregistered entity, which will include private individuals. Where a transaction takes place between registered entities, then even though GST is paid, it will simply be a credit for the entity paying the GST-inclusive amount.

For example, a hospital might contract with a company to provide cleaning services. The cleaning company will need to include GST in the bill they charge the hospital. The cleaning company will need to remit to the Tax Office the GST payable by the hospital. However, the hospital will be entitled to a credit for the GST paid for the cleaning services as that is simply another input to its activities. So if there were $1,000 worth of cleaning services, the company would charge $1,100, the hospital would pay $1,100 and the company would remit $100, leaving it with $1,000. The hospital would get a credit of $100 leaving it with net outgoings of $1,000. Therefore, the net position of both the hospital and the company is the same as if there were no GST.

Sponsorships are subject to GST

The Government has determined that sponsorships, in the usual sense, are payments for services. That is, sponsorships are regarded as payments in return for the service of advertising or other related benefits. However, because a sponsorship transaction will typically take place between two registered entities, the impact of the GST will net out, as in the example given above. That is, if an entity sponsors another entity then the entity providing the service of sponsorship will need to remit GST on the amount of sponsorship provided. But, leaving aside the special treatment of input-taxed financial services, the sponsor will get a credit for that amount. If two organisations decided they wanted to enter into an arrangement whereby one would effectively provide for $10,000 worth of sponsorship, the sponsor would pay $11,000, the recipient of the sponsorship would pay $1,000 tax, and be left with $10,000. The sponsor would be entitled to a credit of $1,000 and so be in the same position as if they had provided sponsorship of $10,000 pre-GST.

A number of submissions, particularly from charitable organisations, wanted sponsorships in the charitable sector to be GST-free. The concern of the charitable entities seemed to rest on a belief that if GST was payable on sponsorship, then the attraction of using the entity as an advertising vehicle would be reduced. However, all sponsorships will be subject to GST, and so the attractiveness of using a charitable entity as compared with another entity will not be affected by the GST. Moreover, the net financial position of the sponsor will not be affected because the transactions will normally be taking place between two GST-registered entities.

Donations are not subject to GST…

The Government has determined that donations, unlike sponsorships, are not payments in return for goods or services. Therefore they do not come into the GST system and no GST is payable upon the receipt of genuine donations.

Nor are government grants

The Government has also determined that government grants are not payments in return for goods or services and so should remain outside the GST. However, some payments by governments are called grants but are in fact payments for providing specified services. In these cases, they will be subject to GST, but where the recipient is a registered entity, the transaction will be between two registered entities and so will have no net GST implications.

Fundraising activities will be subject to GST

Fundraising activities by all registered entities will be subject to the GST. A general tenet of the GST is that the supplier should not need to know the status of the recipient and should not need to know the purpose of the supply. All that matters is that the supply is for consideration and then, generally, GST is paid on the consideration.

Memberships will be subject to GST

A number of submissions, particularly in the charitable sector, considered that subscriptions paid as memberships of organisations should not be subject to GST. The Government has made it clear that it regards membership fees as payments in return for services and therefore will be taxable.

GST-free status extends to activities and not institutions

A number of submissions argued that GST-free status should apply on an institutional basis rather than on the basis of the activity performed. The Committee notes that this is contrary to Government policy and the design of the GST. The GST will apply equally to all entities where they make sales of similar goods or services. For example, if a school sells textbooks to students, the school will need to pay GST to the same degree as commercial bookshops.

Cash flow impact

Several submissions noted that the GST will have an adverse cash-flow effect on entities supplying largely GST-free supplies. That is, entities that will usually be in a position of claiming GST refunds, will first of all have to make the GST-inclusive purchase and therefore required cash up front. The Committee considers that cash flow problems will be minimal, providing the Government ensures refunds are paid promptly.

Chapter 4

Health

The Government's policy

In its policy document *Tax Reform: not a new tax, a new tax system* and associated Fact Sheets the Government said the following health goods and services will be GST-free:

- Medical services that attract a Medicare benefit or are commonly used health services listed by the Government.
- Health care provided at hospitals, nursing homes, hostels and similar establishments.
  - The concession will extend to accommodation, drugs, dressings and meals supplied to patients or nursing home residents in the course of their treatment or care.
  - Nursing home services provided to the elderly in their own home, including Home and Community Care services, will be treated in the same manner as if the person had been resident in a nursing home.
  - Supplies not related to health care, such as food served in hospital cafeterias, or televisions rented to patients will be taxable in the normal manner.
- The supply of medical aids and appliances for use by people with severe medical conditions or disabilities (examples include wheel chairs, crutches, artificial limbs and modifications to motor vehicles for the disabled).
- Drugs and medicines that can only be provided on prescription and PBS and RPBS medicines provided on prescription.

The Committee's framework for assessing the scope of GST-free health

As a basis for its consideration of the health sector, the Committee noted the Government's rationale for making most medical and hospital services GST-free.

> '*Applying taxes to health care would place the private health sector, with its heavier reliance on direct fees, at a competitive disadvantage with the public health system.*'

This policy has been uppermost in the Committee's mind in considering the precise range of health goods and services that will be GST-free. This is also consistent with the Committee's Terms of Reference, requiring it to frame its recommendations in light of the need to

> '*...ensure the tax system minimises any discrimination between private and public provision of goods and services in the GST-free areas.*'

Many submissions argued that health was a 'public good' and therefore deserving of even more concessionary treatment than that proposed by the Government. While acknowledging the intrinsic merit of health (and education, religious services and charities), the Committee has confined its considerations to the guidelines established by the Government. For the Committee to frame its recommendations on the basis of the 'merit' argument would be to go beyond the its Terms of Reference.

The Committee considered that it was important to differentiate between the institution delivering a service and the service itself. If blanket concessional treatment were to be given to the institution that usually delivers such services, these institutions may expand the scope of the services they provide into areas that should not be given GST-free treatment.

In determining the scope of GST-free health goods and services, the Committee thought it desirable, to use existing definitions to the extent that is possible. Such an approach is more likely to result in the Government receiving recommendations which are in a form that is readily transferable into legislation. It will also assist stakeholders to more readily understand the recommended scope of GST-free health.

However, the Committee, in the course of its deliberations also became aware of certain areas of health where it would be desirable to make allowance for the changing nature of the delivery of health services.

In examining the health sector, the Committee drew on the knowledge and individual experience of its members, consultation with relevant government officials, and on information provided by various industry representatives and practitioners. In the end the Committee decided that its consideration of the scope of the GST-free health sector, could best be facilitated by separating the sector into seven fairly distinct subsets:

- medical (health) services;
- hospital services;
- residential care;
- community care;
- disability services;
- medical appliances and aids; and
- drugs and medicines.

Residential and community care, and disability services are not terms used in the Government's policy documents. These documents call for the Committee to make recommendations on the precise scope of health services for the aged that will be

GST-free. However, in the course of its deliberations, the Committee felt that it was not possible to consider aged services without also considering services to the disabled.

Key issues for consideration

Medical (health) services

Tax Reform: not a new tax, a new tax system stated that:

> '*Medical services will be GST-free if they attract a Medicare benefit or are commonly used health services, listed by the Government. Examples of GST-free health services are:*
>
> *Health services covered by Medicare:*
>
> *general practitioner and specialist consultations; and*
>
> *diagnostic, surgical and therapeutic procedures (for example, opthalmology, neurology, optometry, radiation oncology, anaesthetics, radiology, ultrasound etc) and pathology.*
>
> *Other medical services that will be GST-free include:*
>
> *hospital charges (accommodation etc);*
>
> *dental services;*
>
> *optical;*
>
> *physiotherapy, chiropractic;*
>
> *speech therapy;*
>
> *occupational therapy;*
>
> *counselling services;*
>
> *home nursing;*
>
> *dietary services; and podiatry.*
>
> *The precise scope of qualifying medical services is a matter on which the Government will take a final decision following advice from the Tax Consultative Committee.*'

The Committee looked first at those services attracting a Medicare benefit. To attract a Medicare benefit, three criteria need to be met: provider eligibility; patient eligibility and whether the service is listed on the Medicare Benefits Schedule.

While the Committee recognised that Government policy stated that the service must attract a Medicare benefit, it was concerned that:

- the medical practitioner should not have to identify patient eligibility; and

- medical practitioners should be placed on the same footing as practitioners of common health services who do not have a detailed register of services.

Accordingly, the Committee recommends that clinically relevant services provided by medical practitioners, or on their behalf, for example radiographers or nurses, be GST-free.

- The only exception to this would be certain medical procedures (primarily non-essential cosmetic surgery) which are not provided through the public health system.

For commonly used health services, the Committee considered whether any other services should be added to the list in *Tax Reform: not a new tax, a new tax system*. The Committee noted that the Government had listed health services that would generally be considered by the community to be mainstream rather than complementary or alternative, and have been available as a specialist service, with specific qualifications for some time. The Committee also noted that a large number of submissions argued persuasively that some services should be added to the list because they were strikingly similar in nature to services already included, such as podiatry and chiropody. The Committee therefore restricted its consideration of GST-free health services to those which were either very similar in nature to those already nominated, or which the Committee considered fitted the general characteristics of the list proposed by the Government.

It was also recognised by the Committee that many recreational pursuits may have health benefits (eg gym memberships), but decided that it was necessary to 'draw the line' at a reasonable point. The Committee also kept in mind that such an extension could have had significant revenue implications for the Government.

The Committee agreed that the following services should be added to the list:

- osteopathy;
- chiropody;
- speech pathology;
- audiology, audiometry;
- ambulance;
- paramedical;
- nursing;
- aboriginal health services;
- social work services;
- pharmacy; and
- psychology.

In addition to providing a listed service, the practitioner must also be a member of a relevant professional body subject to State government professional registration or uniform national professional self-regulation. The Committee considered that this was an important safeguard to ensure that only suitably qualified persons within the community would have GST-free status for the services that may be provided.

The Committee also thought that only those services that are clinically relevant and of a type normally provided by that profession should be GST-free.

The Committee noted that *Tax Reform: not a new tax, a new tax system* indicated that 'counselling services' should be GST-free. The Committee noted that counselling services are generally provided by three professional groups within the community: social workers, psychologists, and the relatively new profession of counsellors. The Committee noted that social workers and psychologists either have a State / Territory registration requirement or a self-regulation national professional association. There are few equivalent systems for counsellors at this time, and the Committee notes that there are also no minimum qualification requirements before an individual can describe themselves as a counsellor. The Committee considered therefore, that counsellors should not be considered a registered practitioner for the purposes of providing counselling services. The Committee noted the majority of counsellors providing drug and alcohol abuse, HIV aids, depression and grief management counselling are operating in hospitals, charities and other similar institutions rather than in private practice. The Committee considers that, following State Government professional registration or development of a national self-regulating body, the Government should include counsellors as a registered practitioner for the purpose of providing GST-free status.

There are a number of programs for delivery of health services funded from Commonwealth and State or Territory Governments that the Committee thought should be included as GST-free health services, such as community health services. Most of these services will be GST-free as qualifying health services, but in some cases patients will be charged a fee for other services provided as part of their health care which do not come under the definition of commonly used health services. An example is the fee charged in some coordinated care trials currently in place. The Committee considered that coordination of services was integral to the delivery of health services and should not be treated as a separate charge.

The Committee considered that goods used as part of the health service and administered on the premises where the service is performed should also be included in the GST-free treatment of the health service.

As noted earlier, a number of submissions were received from groups seeking to have their services included in the list of commonly used health services. The Committee recognised that many of these services may have benefits to the community. However, it decided that it should give effect to the Government's policy intent by limiting additions to cases where the service had the same characteristics as those services listed in *'Tax Reform: not a new tax, a new tax system'*.

The Committee also noted that ambulance subscription fees are a limited form of private health insurance. In line with the Government's position that private health insurance premiums should be GST-free, the Committee recommends that ambulance subscription fees should be treated in a similar manner.

Hospital services

Tax Reform: not a new tax, a new tax system stated that:

> '*Health care provided at hospitals…will be* GST-free*. The concession will extend to accommodation, drugs, dressings and meals supplied to patients…in the course of their treatment.*
>
> *Supplies of items not related to health care such as food served in hospital cafeterias, or televisions rented to patients, will be taxable in the normal manner.*'

In determining its position on hospital services, the committee considered it useful to make use of existing legislative and regulatory systems such as the Australian Health Care Agreements (AHCA) between the Commonwealth and the States, the Medicare Benefits Schedule and the *National Health Act* 1953 (section 67). This approach allowed the Committee to define the appropriate hospital services as being those consistent with the treatment of health care, while excluding certain medical procedures (primarily cosmetic surgery such as tattoo removal), telephone and television rentals, as well as cafeteria meals.

GST-free treatment should extend to the related provision of accommodation, dressings, drugs and patient meals, but there is a need to restrict the scope of these related goods. The Committee has chosen to limit this scope to goods that are part of the health service and which are administered on the premises where the service is performed.

This helps to ensure that consumers cannot have a range of other goods provided to them GST-free, if they would ordinarily be taxable if purchased privately in the community. An extreme example would be provision of a hundred tubs of topical heat cream to an outpatient with a knee injury. These do not qualify as a GST-free aid or appliance and would ordinarily be taxable if purchased in any retail store. They should not become GST-free just because they are delivered by the hospital.

The use of the AHCAs, the MBS and the *National Health Act 1953 (s67)* also allows the Committee to identify the scope of GST-free hospital health services as those including:

- hospital in the home services;
- hospital outreach services; and
- contracted out health services.

This ensures that new, innovative and more efficient delivery mechanisms for hospital health services are not hampered by a strictly institutional definition of hospital services.

In formulating its final position, the Committee also considered various submissions from industry groups. Many of the issues raised in these submissions have been accommodated in the recommendations of the Committee. However, other issues were raised seeking concessional treatment contrary to the general operation of a GST (such as purchasing all inputs tax free, instead of paying tax and subsequently receiving an input credit), and the overall policy decisions of the Government. These issues have been addressed earlier in the report and the committee reiterates that GST operation and policy issues were outside the scope of its Terms of Reference.

Residential care

Tax Reform: not a new tax, a new tax system stated that:

> '*Health care provided at…nursing homes, hostels and similar establishments will be GST-free. The concession will extend to accommodation, drugs, dressings and meals supplied to …nursing home residents in the course of their…care.*
>
> *Supplies of items not related to health care…will be taxable in the normal manner.*
>
> *The precise scope of health services for the aged that will be GST-free will be the subject of consultation following the election.*
>
> *The construction and sale of new homes will be subject to the GST in the normal manner even where the home is part of a retirement complex. The sale of an existing home will not be taxed. However, separate charges for health services received within a retirement village will be GST-free consistent with the overall treatment of health services.*'

Residential care involves the provision of personal and / or nursing care and related services in a setting owned or managed by the organisation providing that care.

While Government policy has noted that consultation would be with regard to health services for the aged, the Committee notes that a number of facilities provide care to younger disabled persons as well as aged residents.

- Even in facilities funded under the *Aged Care Act 1997* (nursing homes and hostels) a small percentage (around 10 per cent) of residents are younger persons with a disability.

In line with its Terms of Reference to ensure the resulting compliance and administration costs of its recommendations are kept to a minimum, the Committee considered that facilities should not have to bear additional administrative burdens to distinguish between aged and other residents.

The Committee thought that, given the broad nature of residential care, it would be appropriate to link GST-free treatment of goods and services to existing definitions in the *Quality of Care Principles* (subordinate legislation to the *Aged Care Act 1997*). It would also be useful if GST-free status was linked to goods and services provided at an institution or project funded under the *Aged Care Act 1997*, or the *Disability Services Act 1986* or complementary State or Territory legislation.

The Committee also considered that private sector facilities not receiving funding through the Commonwealth, State or Territory governments, should, to the extent possible, be provided the same treatment as equivalent public funded services. To ensure that the service provided is equivalent to that provided by publicly funded institutions, the Committee recommends an assessment process be implemented. The assessment arrangements can be finalised by the Minister for Health and Aged Care.

Finally, the Committee recommends that some flexibility be provided, in particular circumstances, for new residential care programs funded under the Commonwealth, State or Territory budgets. These arrangements should also be subject to the approval of the Minister for Health and Aged Care.

The treatment of retirement villages and independent living dwellings was the subject of written submissions to the Committee. It was argued that recognition should be given, through GST-free status, to a wide range of arrangements linking housing and care to older people. The Committee noted that the Government has already determined that retirement villages will be subject to the GST in the same manner as other forms of long term accommodation.

Community care

Tax Reform: not a new tax, a new tax system stated that:

'*Nursing home services provided to the elderly in their own home, including Home and Community Care (HACC) services, will be treated in the same manner as if the person had been resident in a nursing home.*'

Community care involves the provision of personal and / or nursing care and related services to an aged and / or disabled person, residing at home. Services can be funded under a number of government programs, of which programs funded under the *Home and Community Care Act 1985* are the most well known, or purchased directly through the private market.

As in residential care, the Government stated that consultation would determine the precise scope of services for the aged that will be GST-free. This has proved difficult for the Committee, as a number of younger persons with disabilities receive the same community care service from the same provider as aged persons. For example, in the HACC program around 25 per cent of the estimated 220,000 clients are aged under 70.

To limit GST-free treatment to community care services provided to the aged would be difficult for the service provider to administer and would run counter to other policy benefits achieved from meeting the service needs of all clients in their own home rather than an institutional setting.

The Committee considered that, to give effect to the Government's policy intent, HACC services and similar services funded under the *Aged Care Act 1997* should be GST-free. To provide consistency of treatment, it further considered that HACC type services funded from either Commonwealth, or State or Territory budgets should be GST-free if approved by the Minister for Health and Aged Care.

The Committee also considered that privately provided community care services should, to the extent possible, be provided the same treatment as equivalent public funded services. This would be consistent with minimising any discrimination between private and public provision of goods and services in the GST-free areas.

However, it was not possible to provide full equivalent treatment between community care services delivered through government programs and those purchased privately. The difficulty arises because privately provided services are used by the general public as well as the aged and people with disabilities. These include household help services such as cleaning and ironing that should not be GST-free when provided to the general public.

To provide equivalent treatment would have required the establishment of an assessment mechanism to ensure that only those people needing household help because of age or disability could purchase them GST-free. This was considered to be difficult to administer and adding significantly to the cost of providing community care.

In light of this, the Committee considered that it would be appropriate to limit GST-free treatment for community care purchased in the private market to daily living activities assistance services as defined under the *Quality of Care Principles*. The Principles are determined by the Minister for Health and Aged Care under the *Aged Care Act 1997*, and define the responsibilities of providers for the quality of care provided. Daily living assistance services include assistance with bathing, showering, personal hygiene and grooming.

- These services are used by those requiring a reasonably high level of care and would not normally be purchased by the wider community.

A number of submissions have noted the importance of community (home) care services for the aged and people with disabilities. In particular, it was recognised that these services are important to allowing people to remain in the community as long as possible. The Committee accepts this and has supported GST-free treatment for a broad range of community care services in its recommendations.

Disability Services

In addition to residential and community care services dealt with above, there are a number of other services provided to people with disabilities that the Committee looked at. These services include:

- advocacy services;
- information services;
- print disability services;
- competitive employment training and placement services; and
- supported employment services.

These services are a special case as *Tax Reform: not a new tax, a new tax system* does not specifically mention them, but they were brought to the attention of the Committee and raised in submissions. Goods for people with disabilities are considered below as part of *medical aids and appliances*.

The Committee thought that the practical difficulties in separating the aged and people with disabilities in the delivery of residential care and community care require that these services be GST-free to the disabled. However, the Committee thought that providing GST-free treatment to these additional services, went beyond the Government's policy intent.

In particular, having regard to the design principles of the GST, the Committee considered that sales from supported employment services such as sheltered workshops should be subject to GST. However the Committee did want to emphasise:

- that sales provided on a non-commercial basis by income tax deductible charities would, of course be GST-free. The discussion of the non-commercial activities of charities is at Chapter 7; and
- that it was particularly concerned about the impact of tax reform on sheltered workshop services, and noted that the impact should be monitored and that Governments should give careful consideration to providing additional assistance if necessary.

The issue of supported employment services was raised in submissions in the context of what constituted non-commercial activities by charities.

The Committee also noted that the definition of medical aids and appliances did not allow for the service fees which many people with a disability accrue as a result of using medical aids and appliances such as electronic wheelchairs. The Committee noted the difficulty in distinguishing these services from similar services provided to the wider community. For this reason the Committee decided against providing GST-free treatment to these services. However, the Committee was concerned about the impact of tax reform on these services, and noted that the Government may wish to give consideration to providing additional assistance to individuals who incur these costs.

Medical appliances and aids

Tax Reform: not a new tax, a new tax system stated that:

> '*The supply of medical appliances for use by people with severe medical conditions or disabilities (examples include: wheelchairs, crutches, artificial limbs and modifications to motor vehicles for the disabled) will be* GST-free*.*
>
> *The precise scope of items to be made* GST-free*, is a matter on which the Government will take a final decision following advice from the Tax Consultative Committee.*'

There are many medical appliances and aids that are used by people with disabilities in the community. Generally, most of these items are only of benefit to people with specific disabilities and needs. However, there are many products that may be of benefit to both people with disabilities, as well as having uses in the wider community.

In considering the precise scope of qualifying medical appliances the Committee was mindful of its Terms of Reference requiring it to:

- ensure the resulting compliance and administration costs of its recommendations are kept to a minimum; and
- ensure its recommendations do not have significant adverse revenue impacts.

As noted above, the Government stated in *Tax Reform: not a new tax, a new tax system* that qualifying medical appliances and aids would only be made GST-free where they are for use by people suffering from severe medical conditions or disabilities. The Committee felt that it was too difficult in practice to define the terms 'severe medical condition or disability'. As an alternative, the Committee felt that the list of qualifying goods should be confined to those goods designed specifically for use by people with an illness or disability which are of a kind not ordinarily used in the wider community.

In considering its position, the Committee thought that there were two options for effectively delivering a GST-free approach:

- defining a list of appliances that would be GST-free; or
- defining a list of appliances, but making them taxable in the usual manner, and providing a rebate or credit to people with disabilities.

The rebate approach

The rebate approach has significant benefits in terms of simplicity, clarity and limiting adverse revenue impacts. The rebate approach has compliance benefits for business. The business does not have to distinguish special concessional goods from other goods sold by the business. The benefits of the rebate approach increases as the list of qualifying goods increases.

However, the Committee was not attracted to the targeting of effective GST-free status to particular consumers (as under the rebate scheme), because it would require a mechanism for identifying eligible purchasers and paying rebates. It would also add to the burden on people with disabilities who would be required to keep receipts.

The GST-free list approach

The other option that the Committee considered was to allow consumers to purchase qualifying appliances GST-free.

The Committee favoured this approach as it would remove administrative problems in providing the rebate and would be significantly less burdensome on the disabled.

In specifying the list of aids and appliances to be given GST-free treatment, the committee has considered various submissions from industry and members of the public. The Committee agreed with the suggestions of some submissions to include corrective lenses (including contact lenses), and sleep apnoea machines on the list of GST-free appliances.

The Committee notes that some items that should be included on the list, as they fit the principle outlined above, may have been unintentionally excluded due to time restrictions. The Committee suggests that further refinement of the list may be necessary prior to the development of legislation.

Drugs and medicines

Tax Reform: not a new tax, a new tax system stated that:

> '*Drugs and medicines that can only be provided on prescription and PBS and RPBS medicines provided on prescription will be* GST-free*. The Government will take a final decision on the precise scope of qualifying drugs and medicines following advice from the Tax Consultative Committee.*'

Within the boundary of what is ordinarily regarded as drugs and medicines, there are often competing objectives to be traded off to achieve a satisfactory outcome. However, the issue of whether certain drugs and medicines possess meritorious qualities, was not one that was used as the basis for the Committee's decision. This would have required a consideration of the overall policy objective of making drugs and medicines GST-free.

Instead, the Committee has considered the following competing objectives as the basis for this boundary drawing exercise:

- simplicity in administration and compliance;
- clear and definitive boundaries; and
- limits to concessional treatment for revenue protection.

Over the counter (OTC) non-prescription drugs

The most crucial issue for the Committee was to determine the treatment of over the counter (OTC) non-prescription drugs and medicines.

As laws currently stand, prescription drugs can only be sold through pharmacies. Most drugs that are scheduled on the PBS and RPBS are prescription only drugs. However, there are some OTC drugs that appear on the PBS and RPBS schedules. (for example, a commonly used pain reliever is an OTC product that also appears on the PBS and RPBS schedules). For the reasons outlined below, the Committee is of the view that if GST-free treatment were to be extended generally to OTC drugs, this would add complexity by imposing a burden on general retailers, requiring them to separately account for sales of these products.

These same issues were considered by the Committee in determining GST-free treatment for medical appliances and aids. On that occasion, the Committee considered that the small number of retailers and small number of qualifying goods, would make the compliance burden for business manageable. However, in the case of OTC drugs, the large number of potential retailers and goods would make the compliance burdens much more significant.

However, the Committee was attracted to proposals provided in submissions to extend GST-free treatment to products on Schedule 3 (S3) of Standard for the uniform scheduling of drugs and poisons. S3 products must be sold within a pharmacy and sold under the supervision of a pharmacist. This would reduce the need for a prescription for certain over the counter products, such as metered aerosols used by asthmatics, but would not complicate the running of business for general retailers. Pharmacists will already be selling a mixture of taxable and GST-free products. The Committee also received advice from Commonwealth Government officers that the revenue impact of this extension would not be significant.

Therefore, the Committee believes that GST-free treatment should be limited to:

- products that can only be supplied on prescription (S4 and S8 of the Standard for the uniform scheduling of drugs and poisons);

- products that can only be sold within a pharmacy and under the advice of a pharmacist (S3 of the Standard for the uniform scheduling of drugs and poisons); or
- PBS or RPBS products supplied on prescription.

The Committee received a number of submissions seeking GST-free treatment for other over the counter drugs and natural remedies. Submissions also suggested the use of the Australian Regulatory and Therapeutic Goods (ARTG) schedule as the basis for regulating the types of drugs that would qualify for GST-free treatment. However, the Committee felt that such proposals had significant adverse revenue implications and would not be simple to administer and could significantly add to compliance burdens on business.

Recommendations

Medical (health) services

The Committee recommends that the following medical (health) services be GST-free:

- Clinically relevant health services provided by a registered medical practitioner (as defined in section 3 of the *Health Insurance Act 1973*).
  - Including those services provided on behalf of a medical practitioner such as nurses, audiologists, radiographers — as outlined in paragraph 12.2 of the Medicare Benefits Schedule and section 3AA of *the Health Insurance Act 1973*).
  - **Excluding** certain medical procedures (primarily cosmetic surgery such as tattoo removal) specified in paragraphs 13.2.4 and 13.1.2 of the Medicare Benefits Schedule.
- Commonly used health services as listed in *Tax Reform: not a new tax, a new tax system* together with the additional services below:
  - osteopathy;
  - chiropody;
  - speech pathology;
  - audiology, audiometry;
  - ambulance;
  - paramedical;
  - nursing;
  - aboriginal health services;
  - social work services;

  - pharmacy; and
  - psychology.

- Listed services must be clinically relevant and be of the type normally supplied in that profession. The practitioner must also be a member of a relevant professional body subject to State government professional registration or uniform national professional self-regulation.
- Services, such as coordination services, funded through Commonwealth and State Government programs that are integral to the delivery of qualifying health services for patients.
  - Such services should be GST-free where they are approved by the Minister for Health and Aged Care as essential for patient welfare.
- Ambulance subscription fees should also be GST-free.
- GST-free treatment should also extend to goods provided as part of the service and administered on the premises where the service is performed.

Hospital services

The Committee recommends that the following hospital services provided for the purpose of providing health services to a patient should be GST-free:

- Public hospital services as defined in the Australian Health Care Agreements 1998-2003 (and subsequent agreements) between the Commonwealth and States; or replacement agreements, except for those services defined under paragraphs 13.2.4 and 13.1.2 of the Medicare Benefits Schedule;
- Hospital treatment as defined in section 67 of the *National Health Act 1953* delivered to private patients (whether covered by private health insurance or self-insured) by a private hospital (as defined in subsection 3(1) of the *Health Insurance Act 1973*) or by day hospital facility (as defined in subsection 4(1) of the *National Health Act 1953*) except for those services defined under paragraphs 13.2.4 and 13.1.2 of the Medicare Benefits Schedule; and
- GST-free treatment should also extend to goods provided as part of the service and administered on the premises where the service is performed.

Residential care

The Committee recommends that the following be GST-free:

- The supply of goods and services listed in the *Quality of Care Principles* (subordinate legislation to the *Aged Care Act 1997*) and provided by 'qualifying institutions and projects'.
  - Goods and services listed under the *Quality of Care Principles* are broad ranging and include accommodation and maintenance of buildings and

grounds, personal care services, treatments and procedures, recreational therapy, a limited range of furnishings, and bedding. These services do not include additional items such as television hire and hair dressing.

Qualifying institutions and projects are those:

- Funded under the *Aged Care Act 1997*.
- Funded under the *Disabilities Services Act 1986* or complementary State or Territory legislation.
- Funded privately, but assessed by the Commonwealth as providing services similar in nature and objective to *Aged Care Act 1997*.
  - — Decisions on assessment arrangements, and whether cost recovery should be part of any Commonwealth assessment, is to be decided by the Minister for Health and Aged Care.
- Funded under annual appropriations through the Health and Aged Care and Family and Community Services portfolios or equivalents in the States and Territories, and approved by the Minister for Health and Aged Care, as providing services similar in nature and objectives to facilities funded under the *Aged Care Act 1997*.

Community care

The Committee recommends that the following community care services be provided GST-free:

- services funded under the Home and Community Care (HACC) program;
- services provided to a person residing at home under the *Aged Care Act 1997*;
- services provided to a person residing at home and funded under the Health and Aged Care or Family and Community Services portfolio and approved by the Minister for Health and Aged Care as being similar in nature and objectives to HACC services;
- services provided to a person residing at home and funded through State and Territory budgets and approved by the Minister for Health and Aged Care as being similar in nature and objectives to HACC services; and
- daily living activities assistance services purchased from the private market, as set out at item 2.1 of Schedule 1 of the *Quality of Care Principles* and provided in the person's own accommodation.

Disability services

The Committee recommends that:

- the Government not extend GST-free treatment for disabled services beyond its recommendations regarding residential care and community care.

Medical appliances and aids

The committee recommends that the following appliances and aids should be given GST-free treatment where:

- they are specifically designed for people with an illness or disability; and
- are not of a kind ordinarily used in the wider community.

Cardiovascular

heart monitors
pacemakers
surgical stockings

Communication aid & for persons with disabilities

communication boards and voice output devices
communication cards
page turners
eye pointing frames
software programs specially designed for persons with disabilities
printers and scanners specially designed for software and hardware used by persons with disabilities
switches and switch interfaces
mouth / head sticks / pointers
alternative keyboards
electrolarynx replacements
speech amplification / clarification aids

Continence

Urine / faecal drainage / collection devices
waterproof covers or mattress protectors
absorbent pads for beds and chairs
disposable / reusable continence pads pants and nappies required for continence use (excluding nappies for babies, sanitary pads or tampons)
enuresis alarms
incontinence appliances
hospital / medical / continence deodorising products
waterproof protection for bed and chairs
sterile plastic bags
electric bag emptier
enemas, suppositories and applicators
urinals and bedpans
penile clamps

Daily living for persons with disabilities

customised eating equipment for persons with disabilities
customised toothbrushes for persons with disabilities
dentures and artificial teeth
environmental control units designed for the consumer's disability
computer modifications required for people with physical disabilities

'medical alert' devices

Diabetes

finger prickers
test strips
syringes and needles
glucose monitors

Dialysis

home dialysis machines

Enteral nutrition

enteral nutrition and associated delivery equipment

Footwear for persons with disabilities

surgical shoes, boots, braces and irons
orthotics

Hearing/speech

hearing aids
visual display units designed for persons with hearing and/or speech impairment to communicate with others
telephone communication devices designed to allow hearing impaired persons to send and receive messages by telephone
batteries designed specifically for use with hearing aids
visual/tactile alerting devices
interactive and broadcast videotext systems
closed caption decoding devices
external processors for cochlear implants

Home modifications for persons with disabilities

bidet/bidet toilet attachment
special door fittings relating to the consumer's disability

Mobility of persons with disabilities

Motor vehicle

- special purpose car seat
- car seat harness specifically designed for persons with disabilities
- wheelchair and occupant restraint
- wheelchair ramp
- electric/hydraulic wheelchair lifting device
- motor vehicles for TPI pensioners
- motor vehicle modifications

Physical

Bedding for persons with disabilities

- manually operated adjusted beds
- electronically operated adjusted beds
- hospital-type beds
- customised bed rails

bed cradle
bed restraints
bed poles and sticks
pressure management mattress and overlays
backrests, leg rest and footboards for bed use

Orthoses

spinal orthosis
lower limb orthosis
upper limb orthosis
pressure management garment
callipers
corsets (surgical)
handsplints and cervical collars
mandibular advancement splints

Positioning aids

alternative positional seating corner chairs
alternative positional seating abduction cushion or long leg wedges
alternative positional seating modifications
standing frames
standing frames or tilt table modifications
side lying boards
night-time positioning equipment modifications

Prostheses

artificial limbs
mammary

Seating aids

postural support seating tray
electrically operated therapeutic lounge / recliner chairs specifically designed for disabled persons
cushions specially designed for the benefit of disabled persons

Transfer aids

manual, electric, ceiling track or pool hoist specifically designed for persons with disabilities
hoist sling
gooseneck
transfer board
transfer sheet, mat or belt
stairlifts
portable stair climbers
monkey ring for people with disabilities

Walking aids

crutches
specialised walking stick

standard adult walking frame
standard child walking frame
specialised walking frame
walking frame modifications
specialised ambulatory orthosis
specialised ambulatory orthosis modifications
quadrupod and tripod walking aids

Wheelchairs and accessories

wheelchairs, motorised wheelchairs, scooters, tricycles, spinal carriages and other goods for the carriage of disabled persons
accessories associated with wheelchairs, motorised wheelchairs, scooters, tricycles, spinal carriages and other goods for the carriage of disabled persons
battery chargers for wheelchairs
stair-aid apparatus designed for carrying disabled people in wheelchairs up or down stairs

Pain management systems

syringe driver
patient control analgesia

Personal hygiene for persons with disabilities

bathboard or toilet seats
bath supports
shower chair or stools
shower supports
shower trollies
commodes
shower chairs
commode cushions
commode pans
toilet frames
toilet supports
self-help poles
mobile shower chairs

Respiratory appliances

continuous positive airway pressure (CPAP) appliances
respiratory appliance mask assembly complete
respiratory appliance mask assembly components
respiratory appliance accessories
products for those with breathing difficulties including:

peak flow meters
nebulisers
spacers
vaporisers
respirators

air pumps
bottled oxygen and associated hardware
oxygen concentrators
breathing monitors
continuous Positive Airways Pressure devices
ventilators
sleep apnoea machines

Safety helmet specially designed for persons with disabilities

Skin

jobst suits
transcutaneous nerve stimulator machines

Stoma

stoma products including all bags and related equipment for patients with colostomies and ileostomies

Vision

tactile / Braille books / magazines / newspapers
electronic readings aids
talking book machines (and parts) specially designed for the vision impaired
enlarged text computer monitors for vision impaired persons
Braille note takers
Braille printers and paper
Braille translators (hardware and software)
money identification equipment
auditory / tactile alerting devices
sonar canes
reading magnification devices (excluding magnifying glasses)
lenses for prescription spectacles
prescription contact lenses
artificial eyes
ultrasonic sensing devices designed for use by vision impaired persons
viewscan apparatus designed for use by vision impaired persons

Drugs and Medicines

The committee recommends that the following drugs and medicines should be GST-free:

- drugs and medicines that can only be provided on prescription (S4 and S8 items on the Standard for the uniform scheduling of drugs and poisons);
- drugs and medicines that can only be sold within a pharmacy under the advice of a pharmacist (S3 on the Standard for the uniform scheduling of drugs and poisons); and
- PBS and RPBS products provided on prescription.

Chapter 5

Education

The Government's policy

In its policy document, *Tax Reform: not a new tax, a new tax system*, and in the associated 'fact sheet' the Government said the following educational services are to be GST-free:

- tuition at or through a pre-school, primary school or secondary school;
- tuition provided at a college, TAFE, university or other recognised institution that leads to a degree, diploma, certificate or other similar qualification;
- the provision of accommodation at boarding schools;
  - accommodation at University Colleges will be input taxed in line with the treatment of other long-term accommodation.

Some education-related activities such as recreational and short occupational courses, holiday camps, sporting and craft programs will be taxable.

Additional activities that would normally be taxed will not become GST-free simply because a school acts as a purchasing agent. Goods and services sold or leased to students by an educational institution will be taxable in the normal way. Taxable activities include:

- the food component of boarding fees and food and school tuck-shop sales;
- school uniforms and bus services;
- fees charged for equipment hire; and
- sales of goods for fundraising purposes.
  - If fundraising is done by an organisation below the threshold for registration ($100,000 for non-profit bodies) the GST will not apply to the sales.

The Prime Minister also stated in a letter dated 24 September 1998 to the Australian Vice-Chancellors' Committee:

> '*…tuition includes all activities…as part of providing tuition. Thus research and scholarship activities of universities and school provided services which contribute to the achievement of the National Goals of Schooling are all GST-free.*'

> '*A distinction is drawn between boarding accommodation provided at schools for school-age students and accommodation at tertiary institutions*

> *because the latter directly competes with accommodation provided outside the institution.*'
>
> '*Courses which are preparatory to the educational courses which are GST-free are also GST-free. …It is not necessary that a student actually take out a certificate or a qualification provided that the tuition provided could contribute to such a certificate or qualification…*'
>
> '*…overseas students studying in Australia will not pay GST on education services which are GST-free for Australian students.*'

In its policy document, *Tax Reform: not a new tax, a new tax system*, the Government said that the precise range of recognised institutions and courses that qualify as GST-free will be finalised following advice from the Tax Consultative Committee.

The Committee's framework for assessing the scope of GST-free education

In its policy document the Government provided the rationale for making educational services GST-free. It stated that:

> '*Like health and medical care, education receives significant government assistance. Public primary and secondary education is provided free of charge and significant assistance is given to private schools and tertiary and vocational education. Applying the GST to education would discriminate against private providers.*'

This also accords with the Committee's Terms of Reference, which requested it to:

> '*…ensure the tax system minimises any discrimination between private and public provision of goods and services in the GST-free areas.*'

Many submissions argued that education was a 'public good' and on this basis alone should receive special tax treatment. The Committee, while recognising the 'merit' argument, chose to focus on the level 'playing field' guidelines given to it by the Government. Its recommendations are framed in the context of the necessity to ensure that recognised public and private providers of educational goods and services are equitably treated.

Key issues for consideration

A mechanism for defining GST-free courses and institutions

The Committee did not accept the proposal by a number of organisations that some form of 'blanket' GST-free status be granted with reference to a class of institution, including the desire by some organisations that such institutions be exempted from having to pay GST up-front on their purchases (or inputs) as is the case under the current Wholesale Sales Tax provisions. As noted earlier, to do otherwise would run counter to the Committee's Terms of Reference and the overall design of the GST, where tax is levied at each point in the supply chain and where those entities who are GST-registered are then able to claim a tax credit for the GST paid on their inputs.

In determining the scope of GST-free courses and institutions, the Committee has taken the approach that it is most desirable, where possible, to use existing legal definitions and to add to these to the extent necessary. Such an approach is more likely to result in the Government receiving recommendations which are in a form that is readily transferable into legislation. It also adds to simplicity and clarity in understanding the Committee's recommended scope of GST-free education.

After due consideration, the Committee came to the view that an appropriate way to define the scope of many of the courses and institutions qualifying for GST-free treatment is by reference to the Education Minister's Determination of Education Institutions and Courses under Subsections 3(1) and 5(D) of the *Student Assistance Act 1973*.

The Minister for Education, Training and Youth Affairs Minister retains the power, under the *Student Assistance Act 1973*, to make determinations identifying approved education institutions and courses. These determinations are referred to in the *Social Security Act 1991* to identify courses which qualify for particular types of assistance (for example, Youth Allowance).

The Determination defines the following classes of educational institutions:

- Secondary Schools — Government schools or non-Government schools (excluding private-for-profit schools) that are recognised by the Government;
- Special Schools — as for secondary school but conducted for students with a disability;
- Technical and Further Education (TAFE) institutions — an organisation or training institution registered by the State or Territory in accordance with the Australian Recognition Framework to provide vocational education and training and conducted by a Government authority;
- Higher Education Institutions — recognised under specified parts of the *Higher Education Funding Act 1988*;

- Non-Government Higher Education — not listed in the relevant parts of the *Higher Education Funding Act 1988* but recognised by the State or Territory Government; and
- Non-Government Registered Training Organisations — organisations or training institutions registered by the State or Territory in accordance with the Australian Recognition Framework to provide vocational education and training and not conducted by a Government authority.

In addition, the Determination provides schedules of types of courses that are to be considered approved secondary or tertiary courses conducted in approved educational institutions. In general, the approved courses rely on accreditation by the relevant State or Territory registration authority. The Determination specifically excludes 'hobby' and 'leisure' courses.

The Determination also covers English as a Second Language, Adult and Community Education, bridging, preparatory and remedial literacy and numeracy courses provided they are accredited with the relevant State or Territory accreditation authority and are not classified as 'hobby' courses. This State and Territory registration and accreditation process is a tested and accepted mechanism for ensuring the value and quality of courses around Australia.

While the Determination forms a useful basis for defining those courses and institutions which should attract GST-free treatment, the Committee has identified additional courses and institutions warranting GST-free treatment.

Institutions and courses not included in the Determination and which would need to be included in the GST legislation, or brought within the ambit of the Determination, include:

- recognised kindergartens, pre-schools and primary schools;
- private-for-profit schools delivering curriculums recognised by the relevant State / Territory Education Department;
- special education centres;
  - These centres cater to the severely disabled and their prime focus is on providing therapeutic assistance but they also offer some educational instruction which might be either curriculum-based or preparatory to schooling.
  - Government and non-government centres are defined in Schedule 9 to the *State Grants (Primary and Secondary Education Assistance) Act 1996*.
    - Government centre means a place conducted by or on behalf of the Government of a State at which special education is provided.
    - Non-government centre means a place in a State that provides special education, is conducted by a non-government body, is not conducted for profit, and is not a school.

- Masters and Doctoral level courses and other post-graduate qualifications from recognised universities; and
- English language courses for overseas students (for example, those provided by ELICOS centres), or combination English language and other courses for overseas students provided by an approved provider accredited to provide English language courses to overseas students by the designated State or Territory authority.

Other issues

In considering the application of GST-free treatment to the education sector, the Committee has formed the view that, as a necessary adjunct to this, some additional definitional issues need to be addressed. These include:

- the definition of 'tuition', including consideration of how private tuition should be treated;
  - This includes consideration of the extent to which the concept of 'tuition' should encapsulate a limited range of materials which are used in the process of teaching and delivering a course of study.
- the definition of 'boarding school accommodation'.

Other issues that arose during the course of the Committee's deliberations included how a GST should apply to:

- research and scholarship activities within educational institutions;
- Block Grant Authorities in the non-government school sector and School System Authorities in the government and non-government school sector;
- professional development activities; and
- the compliance impact on the educational sector.

Defining 'tuition'

The Committee recommends that the GST-legislation reflect the notion that 'tuition' provided by an educational institution extends to include any activity undertaken by the educational institution which occurs during the delivery of a course and is directly related to the curriculum. This would include goods and services (as listed below) for which no GST would be payable, even if a separate charge is made in respect of these:

- teaching the course;
- activities associated with the course, such as library and computer access; and
- course materials such as photocopied educational materials, taped lectures, lecture notes.

The Committee considered the issue of the tax treatment to be given to the supply by the institution of goods that are necessarily consumed or transformed as part of the course. Because of the difficulty in defining such items, a proposal was put before the Committee to impose a tax-free threshold for such materials. While the Committee is aware that the Government is concerned to avoid the situation where students can access goods GST-free simply because they are supplied by an educational institution, the Committee was not attracted to this proposal.

Accordingly, the Committee recommends that materials which are essentially consumed as a part of the activity of undertaking an approved course of study and which are integral to the teaching of that course of study should be GST-free.

- Examples of such materials would be the provision of cooking ingredients in a home economics class or the supply of wood in a manual arts course.

The Committee notes the Government's intention that items provided by the institution as part of the tuition fee (for example, textbooks, computers etc), and which become the property of the student, and which would attract GST if purchased or leased elsewhere, would be taxable.

The Committee considered a number of other related matters requiring consideration. It recommends that activities associated with the following be GST-free:

- the assessment and issuing of qualifications relating to the course;
- curriculum related field trips and excursions;
  - This would apply to payments for primary and secondary school excursions (including travel but excluding the food component) and to tertiary excursions (excluding the food and short-term accommodation components). Both must directly relate to the curriculum being undertaken.
    - The Committee rejects the notion that GST-free status not apply to those field trips and excursions undertaken outside the school term as many of these are in furtherance of the curriculum.
    - However, again the Committee is cognisant of the Government's concern that activities not be GST-free simply because a school acts as a purchasing agent. To this end, the Government should make clear to schools that this is the intent of the policy, and should 'non-educational' activities be arranged, then GST is payable.
- compulsory administrative charges, including general service fees (other than fees for membership to an association); and
- the assessment and issuing of qualifications by an organisation or education institution that is registered by the relevant State or Territory training recognition authority in accordance with the Australian Recognition Framework to provide skill recognition (assessment only) services.

Private tuition

In terms of private tuition, the Government's policy documents are silent. It could be argued that that private tuition should be subject to the GST because:

- private tuition is outside of the 'recognised' sector;
- the Government's intention was to tax such things as private sports tuition, and private ballet and music lessons which are not necessarily curriculum-related; and
- it is practically difficult for a private provider of tuition to link private tuition to the school curriculum. That is, it would be administratively difficult for private tutors to determine whether or not the subject matter being taught is directly related to the school curriculum and it would be inappropriate to place this onus on them.

Bearing these factors in mind, the Committee has decided not to recommend that private tuition be GST-free. This would include private tutors operating as a business as they are outside the 'recognised' sector.

This approach is consistent with the approach taken elsewhere in this report — a guiding principle is whether the course or institution is accredited, or 'recognised'.

However, the Committee considered that there may be circumstances where a recognised institution engages private tutors, for example music or sports specialists, to provide tuition within the context of the institution's educational programs.

- Under these limited circumstances, the Committee concluded that such tuition should be GST-free. That is, if an institution engages a private tutor to deliver teaching services on behalf of the institution, the institution would pay a GST-inclusive price to the tutor but would not pass the GST cost on to the student.
  - The rationale for this is that it could reasonably be considered that the private tuition had been brought within the bounds of the recognised educational sector.
- The Committee recommends that this treatment should extend to private tuition provided within University Colleges.
- The Committee noted that, in relation to private tutors, the $50,000 GST registration threshold will ensure that most tutors will not need to charge GST on their services since they will not need to be registered. In this event, they will effectively be input-taxed, that is they do not charge tax on their supplies, and are unable to claim back GST paid on their business purchases.

Defining 'boarding school accommodation'

The Government has distinguished between boarding accommodation at primary and secondary schools and accommodation provided by tertiary institutions (see the

Prime Minister's letter to the Australian Vice-Chancellors' Committee of 24 September 1998).

The basis for this concessional treatment of boarding schools is that they are often the only readily available, or acceptable, form of accommodation for school-age students from rural and remote areas. In contrast, older students can often choose whether to use a University College, university sponsored flats or hostels, or to board or rent in the broader community.

The Committee notes this decision of the Government and recommends that:

- the supply of accommodation by an educational institution, on its premises, to students of the institution, provided the institution is a recognised primary or secondary school, should be GST-free;
- while accommodation provided by tertiary institutions to students undertaking a tertiary course or a post-graduate course will be treated as residential accommodation (that is, input taxed);
  - Educational and religious services should remain GST-free where provided by a University College.
- if boarding school accommodation or university accommodation is provided to a person who is not undertaking a GST-free education course, then this accommodation should be treated on the same basis as that applying to ordinary short term or long term residential accommodation.

The Committee also had regard to the tax treatment of rural student hostels which are specialised services catering to students from rural and remote areas. The Committee recommends that these be GST-free, as are boarding schools.

A rural student hostel might be defined as:

- a hostel in a State or Territory that is conducted by a government or non-government body and whose primary purpose is to provide accommodation for students from rural areas who are undertaking an educational course.

For the purposes of determining GST-free status:

- as for boarding schools, the boarding school element of boarding costs at an accredited rural student hostel should enjoy GST-free status in respect of students attending primary and secondary schools recognised under the Determination and who reside in the hostel in school term time.
  - If the hostel provides accommodation to a person who is not undertaking a GST-free education course, then this accommodation should be treated on the same basis as that applying to other commercial accommodation.

Research activity

Some submissions were concerned that research activities undertaken within a university may be subject to GST. However, the Prime Minister's letter to the Australian Vice Chancellor's Committee of 24 September 1998 made it clear that such activities will be GST-free.

Typically such research is simply carried out and there is no 'supply' of this research to another agent for a 'consideration'. That is, the research is not sold to another party and therefore no GST is payable. As with any other activity conducted by an educational institution, any materials or inputs purchased by the institution to enable it to perform the research, and on which GST has been paid, would attract a tax credit — as with all other GST paid on its inputs the institution could offset this against any GST it has collected in relation to its sales, or outputs.

However, research which is undertaken as part of a commercial transaction should be subject to GST. That is, contracted research or research that results in intellectual property that is sold should be subject to GST.

- This general treatment in relation to research should apply equally to independent, non-profit research institutes.

The GST will only have a net impact when there is a sale to an unregistered entity, which may include private individuals. Where a transaction occurs between registered entities, then while GST is paid, it will simply be a credit for the entity paying the GST-inclusive amount. For example, a GST-registered business (not including an input-taxed business) contracts a university to provide research on a particular issue. The university charges the business $10,000 for the research and an additional $1000 GST so that the business pays the university a total of $11,000. The university remits to the tax authorities $1,000 in GST. The business is able to claim the $1,000 it has paid in GST as an input tax credit and offset this amount against any GST it has to remit to the tax office from GST collected on its sales. Effectively, the business pays, and the university receives, the same amount for the research that they would have done in the absence of a GST.

Block Grant Authorities and School System Authorities

As with research activities the Committee was concerned that Block Grant Authorities (BGAs) and School System Authorities (SSAs) in the non-government school sector might perhaps be subjected to GST when they are essentially helping educational institutions in the delivery of educational services.

BGAs and SSAs are recognised under the *State Grants (Primary and Secondary Education Assistance) Act 1996*. Some are individual body corporates under Corporation Law. A prime purpose of each is to make payments to schools within their responsibility.

The application of the GST to these bodies will, in part, depend on their structure. The Committee recommends as follows:

- should these bodies and the schools they service be separate legal entities then they would register separately for GST purposes. All the educational services they provide will be GST-free. However, where these organisations engage in commercial transactions, these will be GST liable; or
- if in the event the relevant body and a school are considered to be a single entity for GST registration purposes then GST does not apply to internal transactions which may be carried out for internal accounting purposes only.

Professional recognition and development activities

The Committee also considered the GST status of professional recognition and development activities.

The professions in Australia may be considered in two groups, those that are registrable by a State or Territory regulatory authority and those that are self-regulated.

Registrable professions include those such as medicine, nursing, law and architecture and registration is generally reserved for those professions where there is a need to protect public rights, safety or health.

The unregulated professions are generally not covered by specific State or Territory legislation, but there may be a degree of self-regulation imposed by a professional association. The typical example of the latter is engineering where an engineer does not have to be a member of the Institution of Engineers (Australia) in order to practice, but most employers impose IE (Aust) membership as a requirement for employment. Other professional bodies, such as the Australian Computer Society exert less influence over the employment market.

Professional recognition

Education and training requirements for the registrable professions generally require a university, or in some cases, a TAFE degree or diploma. There are instances, particularly in medicine and law, where practice in a specialty is further regulated by additional education or training. For example, in the case of medicine, a doctor may only be recognised as a surgeon under the Medicare arrangements if he or she has completed the examinations and been admitted to the Royal Australian College of Surgeons. In law, a law graduate may work in general employment, but will only be admitted to practice if they have completed a practice training course provided by a university or private provider.

Professional development

In the case of the unregulated professions, the professional bodies may insist on the completion of professional development units in order to maintain membership. Such units of study may include employment experience, non-award courses or tests administered by the professional association or a private provider, or award courses administered by a university or TAFE on behalf of the professional association. In a small number of cases, such as engineering and some homeopathic professions, there is an increasing acceptance of the need for specialist training in order to work in selected activities that have implications for public safety even though no formal registration Act is in place.

Professional qualifications which are not obtained by completing a recognised course in a recognised educational institution will not qualify for GST-free status.

There are then, two broad types of professional development activity:

- the first may be classified as pursuit of qualifications in order to enter a profession; and
- the second may be more of the nature of maintaining skills.
  - In many instances, expenses associated with these activities are receiving concessional treatment through the income tax system. Where such activities incur GST and are borne by a business the GST paid can be claimed as an input tax credit.

    Further, the Government made it clear that it wished to tax short occupational courses.

Having considered the issues the Committee felt that recommending special provisions for professional development activities would be beyond the scope of the policy as set out by the Government. The Committee has been required to draw the boundaries of GST-free education and in doing so has relied on the formal educational institution framework.

Compliance impact

The Committee is concerned that, as with businesses, the education sector will experience additional costs associated with the implementation of a GST and there will be additional compliance costs.

In terms of equitable treatment with the private sector, for which the Government has earmarked some $500 million, the Committee feels that the education sector should also share in this pool of funds. To do otherwise may result in valuable resources being diverted from the delivery of education services.

The Committee is mindful of the additional compliance costs institutions may face should those institutions have a significant mix of input-taxed, GST-free and taxable activities. These costs could be minimised if an institution is allowed to claim credits on the basis of a simple apportionment rule whereby the institution claims credits based on the proportion of its total activities which are not input-taxed.

Some submissions advocated raising the $100,000 GST-registration threshold applying to parent associations. Consideration of this issue was outside the Committee's Terms of Reference.

To help minimise the compliance costs of the GST, the Committee recommends that where an organisation has no income tax liability, such organisations be allowed to account for the GST on the same basis as they maintain their accounts.

Conclusions

The Committee is satisfied that its recommendations in relation to the application of a GST to educational services represent a comprehensive and workable framework for the Government to implement its taxation policy.

In arriving at its recommendations the Committee has had due regard to the Government's overall policy intentions and believes that its proposals:

- will ensure the tax system minimises any discrimination between the private and public provision of goods and services in the education sector;
- represent a simple and clear application of a GST to the education sector; which
- will help to minimise the resulting compliance and administrative costs.

The Committee believes that the Government should be aware that the GST treatment of education may need to be reviewed from time to time and the Committee believes that there should be scope for necessary changes to be made as the need arises. This will be inevitable as the education sector is in a constant state of evolution.

Recommendations

The Committee recommends:

- That courses and institutions qualifying for GST-free treatment be determined by reference to, but not limited to, the Education Minister's Determination of Education Institutions and Courses under Subsections 3(1) and 5(D) of the *Student Assistance Act 1973*.
- In accordance with the Determination GST-free treatment to apply to:
  - recognised secondary schools;
  - recognised special schools;

- — recognised Technical and Further Education institutions;
- — recognised Higher Education institutions;
- — recognised Non-government Higher Education institutions;
- — recognised Non-government Registered Training Organisations;
- — approved Secondary or Tertiary courses conducted in approved educational institutions. In general, the approved courses rely on accreditation by the relevant State or Territory registration authority;
- — accredited vocational educational and training courses excluding recreation leisure and personal enrichment courses activities, or 'hobby' courses;
- — English as a Second Language, Adult and Community Education, bridging, preparatory and remedial literacy and numeracy courses provided they are accredited with the relevant State or Territory accreditation authority and are not classified as 'hobby' courses.

♦ In addition to those institutions and courses identified by the Determination, additional legislative provisions should be made so that GST-free treatment apply to:

- — recognised kindergartens, pre-schools and primary schools;
- — private-for-profit schools delivering curriculums recognised by the relevant State / Territory Education Department;
- — recognised special education centres;
- — recognised Masters and Doctoral level courses; and
- — English language courses for overseas students, or combination English language and other courses for overseas students provided by an approved provider accredited to provide English language courses to overseas students by the designated State or Territory authority.

♦ The GST legislation needs to reflect the notion that 'tuition' provided by an educational institution extend to include any activity undertaken by the educational institution which occurs during the delivery of the course and is directly related to the curriculum. This would include:

- — teaching the course;
- — activities associated with the course, such as library and computer access;
- — course materials such as photocopied educational materials, taped lectures, lecture notes;
- — the supply by the institution of goods that are necessarily consumed or transformed as part of the course;
- — the assessment and issuing of qualifications relating to the course;
- — curriculum related field trips and excursions;

  : This would apply to payments for primary and secondary school excursions (including travel but excluding the food component) and to tertiary excursions (excluding the food and short-term accommodation components). Both must directly relate to the curriculum being undertaken.

- — compulsory administrative charges, including general service fees (other than fees for membership to an association); and
- — the assessment and issuing of qualifications by an organisation or education institution that is registered by the relevant State or Territory training recognition authority in accordance with the Australian Recognition Framework to provide skill recognition (assessment only) services.

- ♦ That private tuition be taxed except where a recognised institution, including University Colleges, engages private tutors, for example music or sports specialists, to provide tuition on behalf of the institution.
- ♦ In terms of accommodation:
  - — the supply of accommodation by an educational institution on its premises to students of the institution, provided the institution is a recognised primary or secondary school, be GST-free; and
  - — accommodation provided by tertiary institutions to students undertaking a tertiary course or a post-graduate course is to be treated as residential accommodation (that is, input taxed);
    - : Educational services should remain GST-free where provided by a University College.
- ♦ If boarding school accommodation or university accommodation is provided to a person who is not undertaking a GST-free education course, then this accommodation should be treated on the same basis as that applying to ordinary short term or long term residential accommodation.
- ♦ The GST-free status of rural student hostels to be:
  - — as for boarding schools, the boarding school element of boarding costs at an accredited rural student hostel should enjoy GST-free status in respect of students attending schools primary and secondary schools recognised under the Determination and who reside in the hostel in school term time.
    - : A rural student hostel might be defined as a hostel in a State or Territory that is conducted by a government or non-government body and whose primary purpose is to provide accommodation for students from rural areas who are undertaking an educational course.
    - : If the hostel provides accommodation to a person who is not undertaking a GST-free education course, then this accommodation should be treated on the same basis as that applying to other commercial accommodation.

- In terms of equitable treatment with the business sector for which the Government has earmarked some $500 million, the Committee feels that the education sector should share in these funds.
- In the case of institutions which have a mix of taxable and non-taxable activities, the Government consider introducing a simple apportionment rule whereby the institution claims credits based on the proportion of its total activities which are not input-taxed.
- The Committee assumes that the GST-registration threshold of $100,000 which applies to non-profit organisations, such as parents and citizens associations, will be reviewed from time to time by the Government.
- To help minimise the compliance costs of the GST, the Committee recommends that where an organisation has no income tax liability, such organisations be allowed to account for the GST on the same basis as they maintain their accounts.
- Independent non-profit research institutes be entitled to the same treatment as universities with regard to their research activities.

Chapter 6

Religious Services

The Government's Policy

The Government announced in *Tax reform: not a new tax, a new tax system* that:

> *'Religious services will be GST-free. Churches and other institutions that supply religious services will not charge tax on those services and will be able to claim input tax credits for tax paid on their inputs.'*

It was further announced that items for private use in devotion will be taxable. The precise range of religious services that qualify as GST-free would be for the Committee to consider.

The Committee's framework for assessing the scope of GST-free religious services

The Committee notes that its Terms of Reference requires it to ensure business and charitable organisations are treated on an equivalent basis where they provide similar goods and services on a commercial basis to consumers. The Committee considers this principle should equally apply to religious institutions providing religious services. However, the Committee considers that where the services provided are purely religious and there is no commercial equivalent, then it would be appropriate for this to be GST-free.

Key issues for consideration

Ensuring business and religious institutions are treated on an equivalent basis

Where a religious institution conducts any commercial activities, the Committee was satisfied that these activities should be subject to GST. In considering when GST should apply, the Committee considered that they should not have regard to the *purpose* of the sale, as it is the nature of the activity itself that is relevant for GST purposes. Examples of commercial activities that a religious institution may undertake include hire of church facilities to other organisations, operating book shops and running fundraising events such as cake stalls and concerts. Clearly, to the extent that these activities compete with commercial entities, and are conducted by registered organisations, they should be subject to the GST.

However, there are a range of services where the result is not as obvious.

For example:

Marriage ceremonies can be conducted by authorised religious practitioners or by licensed marriage celebrants. Both services are likely to be provided for a fee and both services include a civil element.

Fees for the marriage service may include hire of facilities, flower arrangements, music, reimbursement for the practitioner or celebrant's travel expenses, and a fee for meeting the requirements of the Marriage Act. If a religious practitioner conducts the service, the fee may also be for the religious service that is provided in addition to the civil or secular services.

It is the Committee's view that the civil or secular element of these services should have equivalent treatment under the GST so as not to discriminate between religious and non-religious service providers. They both should be subject to the GST.

A further example deals with religious retreats.

A person with religious beliefs may attend a religious retreat to pray, study religious texts and undertake other activities that are integral to the practice of their religion. Where a fee is charged for attendance at the retreat, the fee may cover the cost of religious instruction or services as well as the cost of accommodation, food and transport.

In such a case, it would be up to the religious institution to determine how much of the fee is for the religious services and how much for the other, secular elements. The religious service component should be GST-free while the remainder should be subject to GST.

Definition of religious services

The Committee considers the definition of religious services is intrinsically linked to the notion of a religious institution. The term 'religious institution' is used in other instances in the tax law, both at Federal (income tax) and at State (payroll tax) level.

- The meaning of the term 'religious institution' was considered in the Scientology case (The Church of the New Faith v Commissioner of Pay-roll Tax (Vic) 83 ATC 4652).
  - This decision suggested that the criteria of religion are twofold:
    - belief in a supernatural Being, Thing or Principle; and

: the acceptance of canons of conduct in order to give effect to that belief.

Taking into account the above and the Committee's guiding principle that the GST should not introduce a competitive advantage for any sector, the Committee recommends that the definition of a religious service should be a service provided by a religious institution, which is:

♦ integral to the practice of that religion, and

♦ is not of a kind ordinarily delivered by a non-religious organisation.

Impact of GST on religious institutions

The Committee has been advised that religious institutions will have the option of registering for the GST, even if they do not meet the specified turnover threshold. Once a religious institution registers for GST, the institution can claim credits for GST paid on all inputs, even if no 'sales' are generated. The Committee felt that this is quite concessionary, especially when compared with the existing WST arrangements.

Where religious goods, such as bibles, prayer candles, religious images and so on, are purchased by a religious institution, the religious institution will claim input credits for any GST paid on those inputs. Where religious goods are purchased by an individual, however, those goods will be subject to GST. Where a religious institution operates a library and charges a fee for the loan or hire of items from the library, those charges will be subject to GST.

Donations and offerings would not be subject to GST as the donation or offering is not a payment in return for the supply of a good or service.

The Committee recognises that there will be some onus on the administrators of religious institutions to ensure proper self-assessment on the GST-free religious services they provide.

Conclusions

A significant proportion of religious services is provided free of charge. The Committee understands that one reason the Government decided to allow religious services to be GST-free is that it is reluctant to impose GST on the relatively few instances where fees are charged for such services. In addition, as there is no commercial or secular equivalent of a religious service, as defined above, there is no competitive neutrality to be preserved between religious and commercial or secular suppliers of the service.

Where there is a secular element to the service which is being charged for, such as the civil element of a marriage service, then, consistent with the Government's policy and with the Committee's Terms of Reference, the Committee considers it must recommend those elements should be subject to the GST.

Where services are provided by a religious institution and by a secular organisation, both services will be subject to GST, excluding the religious service element which can only be provided the religious institution.

Recommendations

The Committee recommends that religious services be GST-free where they are:

- provided by a religious institution;
- integral to the practice of that religion; and
- not of a kind ordinarily delivered by a non-religious organisation.

Chapter 7

Non-Commercial Activities of Charities

The Government's policy

The Government announced in *Tax Reform: not a new tax, a new tax system* that non-commercial supplies of goods or services by certain charities and public benevolent institutions would be GST-free. However, to avoid unfair competition, their commercial activities will be taxed. While the Government's intention to have the Committee consider the precise meaning of the term 'non-commercial supplies' does not appear in the main document, the associated published Fact Sheet number 223 notes that non-commercial activities of charities would be GST-free, provided the charities are eligible for income tax deductibility.

- Whilst the Committee has confined its recommendations to gift deductible charities, consistent with its terms of reference, the Committee considers that this has the potential to create some anomalies between those charities that have gift deductibility and those that do not. These issues may need to be further considered by the Government at a later stage.

Fact Sheet 223 goes on to note that commercial activities of these bodies will be subject to GST to avoid unfair competition with other businesses. For example, sales by a charity bookshop selling new books on a commercial basis to the public will be subject to GST in the same way as sales from other bookshops.

The Committee's framework for assessing the scope of GST-free services by charities

The distinction between commercial and non-commercial activities is not a simple one, if taken in isolation. On the one hand, it might be argued that things that are ultimately done in pursuit of a benevolent end thereby lack a commercial purpose, even if they result in a profit in a commercial or accounting sense. On the other hand, the fact that goods are sold or services provided at a price, as businesses do, creates a commercial activity, notwithstanding that any profit is ultimately directed not to the proprietors of the business, but to charitable ends.

The Committee notes that many of the submissions it has received tend to support the former approach. A number of submissions put the proposition that all charitable and income generating activities of charities should be GST-free simply because the funds raised are re-invested in the community.

However, Government policy on the GST makes it clear that the ultimate purpose or end of an activity is not the determinant of the commercial / non-commercial distinction. The bookshop example given above makes it clear that, although the profits from the bookselling activity may be directed towards charitable ends, that activity does not become GST-free, if it is the kind of activity that may be conducted by others as a business for profit. However, the Committee considers that where the services provided have no commercial equivalent, then it is appropriate for them to be GST-free.

Many charities operate businesses that provide employment for people with intellectual or physical disabilities. The businesses providing 'sheltered' employment are many and varied and include: marine supplies, manufacture of textile products, garden supplies and wholesale nursery, packing, instant printing, contract packaging (eg shrink wrapping and blister packing), mailing (eg envelope insertion, labeling and folding), laundry services and leisure furniture manufacture. As noted in Chapter 4, the Committee considered that sales from these enterprises should be subject to GST. However the Committee was particularly concerned about the possible impact of the GST on 'sheltered workshop' services, and noted that the impact should be monitored and that Governments give careful consideration to providing additional compensatory assistance if necessary.

In a number of submissions, charities argued that these activities are charitable, not commercial, because their prime objective is to provide a service to disabled people and not to raise revenue. However, the Committee's view is that, when goods and services supplied by charitable businesses are supplied at commercial rates and are competing against other businesses, then those goods and services should be subject to GST.

It is worth noting that many of these businesses sell goods or services to other businesses. Where goods or services are supplied to businesses registered for GST, then there would be no disadvantage for the charities if GST was imposed on the sale of these goods and services as the purchasers would be able to claim credit for the GST paid. It would also be simpler for their customers if GST was included in their prices as the business customers would not need to distinguish between GST-inclusive and GST-free goods when completing GST returns.

The Committee notes that in *Tax Reform: not a new tax, a new tax system* and other public announcements, the Government has made it clear that a charity for GST purposes is a body that is eligible to receive donations for which the donor is entitled to income tax deductions. The Committee has therefore not examined the definition of 'charity' for GST purposes.

The Committee recognises that certain aspects of the GST may impinge on charities' ability to fund services. For example, a number of submissions received from the charitable sector highlight concerns about the cost to charities of becoming familiar with and developing internal processes for administration of the GST. The Committee regards these impacts as establishing grounds for a legitimate call on the pool of funds that the Government has set aside for small and medium businesses to upgrade their recording keeping for GST purposes.

Key issues for consideration

The nature of the activities of tax deductible organisations

The Committee received a large number of submissions, outlining the extensive range of activities undertaken by the charitable sector. While charities engage in substantial fundraising activities, they do so only to fund their benevolent activities.

Outlined below as background are brief descriptions of benevolent activities undertaken by these organisations, as well as their commercial activities. Of course, given the size of the charitable sector, these will not be an exhaustive statement of categories of people helped or of services provided by the charitable sector.

Benevolent activities

Benevolent activities seek to help people in numerous categories including:

- aged people suffering from dementia;
- at-risk children (such as children suffering physical or sexual abuse, and the children of substance abusers);
- disabled people and their families;
- disadvantaged children (such as those in low income families);
- families in crisis;
- frail aged;
- homeless people; people living in remote communities;
- people affected by natural disasters; people suffering from mental illness; people suffering from long term illness;
- people on very low incomes;
- problem gamblers;
- substance abusers;
- the unemployed; and
- victims of domestic violence.

Services provided include:

- advocacy (such as lobbying governments on behalf of disadvantaged sectors of society);
- aged care;
- counselling and support;
- crisis and longer term supported accommodation;

- disaster relief (such as, drought and flood relief in various forms, both domestically and internationally);
- drop-in centres;
- employment services (such as job searching and sheltered employment);
- financial assistance;
- food and clothing;
- home visits;
- information services (such as providing information for the charity's particular client groups);
- life skills education;
- nursing services;
- palliative care; research (such as research into major causes of illness in the community); and
- respite services for individuals and families.

Many of these activities will be provided at no cost, so no question of GST arises. However, as described in Chapter 3, notwithstanding the lack of a taxable supply, organisations will be entitled to credits for tax paid on inputs to all these activities.

Commercial activities

Charities also undertake various activities to raise funds to support their benevolent activities. These include business-like activities such as running conference centres, bookshops, selling greeting cards and operating farms, as well as fund raising through raffles. (The Committee notes that *donations*, not being payments in return for goods or services will not be subject to GST).

When a charity provides (for example, sells) charitable goods or services at a commercial price, those goods or services should be subject to GST. However, on some occasions the charity provides goods or services at a price that is so nominal that it is effectively given away. In this context, it would be a strange result to regard the provision of goods or services at a nominal or perhaps even voluntary charge, as commercial supplies.

Opportunity shops

An activity commonly undertaken by charities is the running of Opportunity Shops. A significant proportion, and possibly all, of the goods sold in these shops have been donated to the charities as second-hand goods.

Submissions received argue that these shops are not truly commercial ventures. As the prices are set because the stock has been donated, the goods are being disposed of well below any commercial price. The shops are effectively an extension of charities' welfare services by providing good quality used clothing and household items at an affordable price to people of limited means. These sales should be GST-free.

In addition to selling donated clothing through Opportunity Shops, many charities reprocess unwanted clothing and clothing not suitable for sale into industrial rags. Some charities take this recycling further by reprocessing material waste into blankets, domestic and industrial cleaning cloths, insulation products and carpet underlay. Most of these products are sold to other businesses rather than direct to final consumers. Therefore these sales have a much more significant commercial flavour, and so the Committee considers such sales should be subject to GST.

That is, goods that are reprocessed should be subject to GST because the reprocessing effectively creates new goods. For example, clothing that has been cleaned and repaired before sale would be GST-free while clothing that has been recycled into industrial cleaning rags would be subject to GST.

Further to this issue, the Committee considered whether or not the sale of unwanted or abandoned animals by animal welfare agencies should be treated the same as donated second-hand goods under the GST. The Committee considered that such sales should be considered equivalent to sales of donated used goods, and so should be GST-free.

Sales by charities of donated new goods would be subject to GST. This is to maintain neutrality between charitable and commercial suppliers.

Fee for service

Several submissions expressed concern over the possible GST treatment of fees for service. Many charities derive some degree of income from charging fees for service, including fees for accommodation services. Fees for service rarely if ever attempt to cover the full cost of the service. Rather, the fees are seen as a contribution towards costs incurred, a means of ensuring that individuals recognise that services do come at a cost, or a means of making charity acceptable to the dignity of the recipient. Charities claim that full cost recovery is often not feasible in the light of the financial resources available to those seeking assistance.

The Committee acknowledges the range of charitable activities that raise money and yet are not fundraising or commercial activities. An example of such a service that was discussed by the Committee is that of a women's refuge.

Case Study: women's refuges

Women's refuges provide emergency short term accommodation to women in need. The accommodation may be charged at up to 25 per cent of the woman's income. The women using these services often have young children that need to be accommodated with them.

When the women have children with them, shared accommodation, of the like found in backpacker hostels, is not appropriate for them as they require privacy and a certain amount of space to themselves as a family unit.

If the woman was seeking short term accommodation in the commercial sector, then, on the basis of accommodation alone, the equivalent service would be a room in a hotel. Such a room would be financially out the reach of the average woman seeking assistance at a refuge.

The service provided to clients of women's refuges is not limited to accommodation but will often include counselling, advocacy and information services, as well as financial assistance.

In situations like that of the women's refuge, because a whole package of services are provided in addition to the accommodation, there are no implications for competitive neutrality between charitable and commercial providers, unless the charge for the accommodation itself is close to that available elsewhere. The Committee would therefore recommend that such services be provided GST-free, where are fees charged at 'non-commercial' rates.

The Committee considers that a fee that is less than 50 per cent of the normal market price is not commercial. Therefore, where a charity charges a fee for a supply that is less than 50 per cent of the normal market value (that is, a 'sale' or discounted price is not considered to be 'normal' market value for these purposes), that supply will be GST-free.

Volunteers

It is clear that volunteers are vitally important to charities in their service delivery and administration. While some organisations attempt to put a dollar value on the contribution made by volunteers, it would not be appropriate for such valuations to be included in any calculations relating to a GST. This is because it would be extremely difficult to devise a simple, consistent and fair value for time. It would also create pressures for individuals to be able to claim income tax deductions for volunteer time and other expenses incurred while performing unpaid work.

Other issues

Various submissions raised concerns about the general operation of the GST as they relate to charities. Such concerns included whether charities would be eligible to receive input credits where they made no sales, whether services provided free of charge would be subject to GST, the GST treatment of contracted services, sponsorships, donations, Government grants, fundraising activities and membership fees.

Input tax credits depend upon the entity being registered

One of the most common misunderstandings of the GST was the impression that eligibility to receive credit for GST paid on inputs was dependent upon the input being used in a GST-free activity, or being somehow incorporated into something that is sold. This is incorrect. The Committee has been advised that entitlement to input credits arises from the fact that a registered entity has purchased goods or services for use in their activities. For example, the GST included in the price of blankets purchased by a charity, that is totally funded by donations, and then given away to a recipient, will still be creditable to the charity.

GST applies to the price paid

The Committee understands that a basic principle of the GST is that GST is only imposed on the price paid for goods or services. Where goods or services are given away, then aside from any tax avoidance issues, there will be no GST implications.

Contracted services

The GST will only have a net impact when there is a sale to an unregistered entity, which will include private individuals. Where a transaction takes place between registered entities, for example, between a GST registered charity and the Government, then even though GST is paid, it will simply be a credit for the Government.

For example, a government might contract with a charity to provide employment services. The charity will need to include GST in the bill they charge the government. The charity will need to remit to the Tax Office the GST payable by the government. The government will be entitled to a credit for the GST paid for the employment services provided by the charity, as that is simply another input to its activities. So if there were $20,000 worth of employment services, the charity would charge $22,000, the government would pay $22,000 and the charity would remit $2,000, leaving it with $20,000. The government would get a credit of $2,000 leaving it with net outgoings of $20,000. Therefore, the net position of both the government and the charity is the same as if there were no GST.

Sponsorships are subject to GST

Sponsorships in the usual sense are payments for services. That is, sponsorships are payments in return for the service of advertising or other benefits. However, because a sponsorship transaction will typically take place between two registered entities, the impact of the GST will net out as in the example above. That is, if a business sponsors a charity then the charity will need to remit GST on the amount of sponsorship provided. But the business will get a credit for that amount. So if the sponsorship was worth $10,000, the business would pay $11,000, the charity would pay $1,000 tax, and be left with $10,000. The business would be entitled to a credit of $1,000 and so be in the same position as if they had provided sponsorship of $10,000 pre-GST.

A number of submissions from charities wanted sponsorships in the charitable sector to be GST-free. However, this would provide an incentive for business to direct its advertising through charitable entities. The concern of the charitable entities seemed to rest on a belief that if GST was payable on sponsorship, then the attraction of using the charity as an advertising vehicle would be reduced. This, however, is incorrect. All sponsorships will be subject to GST, and so the attractiveness of using a charitable entity as compared with another entity will not be affected by the GST. Moreover, the net financial position of the sponsor will not be affected because the transactions will be taking place between two GST-registered entities.

Donations are not subject to GST

Unlike sponsorships, donations are not payments in return for goods or services. Therefore they do not come into the GST system and no GST is payable upon the receipt of genuine donations.

Government grants

Similarly, government grants are not payments in return for goods or services and so remain outside the GST. However, some payments by governments are called grants but are in fact payments for providing specified services. In these cases, they will be subject to GST, but where the recipient is a registered entity, the transaction will be one between two registered entities and so will have no net GST implications.

Fundraising activities will be subject to GST

Fundraising activities by all registered entities will be subject to the GST. A general tenet of the GST is that the supplier should not need to know the status of the recipient and should not need to know the purpose of the supply. All that matters is that the supply is for consideration and then, generally, GST is paid on the consideration.

Memberships will be subject to GST

A number of submissions from charities argued that memberships to their organisations and similar organisations should not be subject to GST. The Government has determined that membership fees are payments in return for services.

Recommendations

The Government has determined that the commercial activities of charities will be subject to GST to avoid unfair competition with other businesses.

In determining the appropriate line for non-commercial activities, the Committee has decided that it is not the purpose of the activity but the nature of the activity itself that is important.

Accordingly, the Committee recommends that the Government adopt an approach that defines a 'non-commercial' supply by a gift deductible body as:

- a supply of donated second-hand goods, or
- a supply that is for nominal or insubstantial consideration.

'Nominal or insubstantial consideration' is a payment of a price that is less than 50 per cent of the normal market value of the supply.

Chapter 8

Motor Vehicles — Transitional Arrangements

The Committee has been asked to consult on specified transitional arrangements relating to motor vehicles.

The Government announced in *Tax Reform: not a new tax, a new tax system* that in order to minimise disruption of the motor vehicle market, *input tax credits* would be phased in for motor vehicles over a two year period. In the first year of the GST's operation certain businesses would be denied *input tax credits* for new motor vehicle purchases. In the second year, half the value of *input tax credits* would be denied. In the third and subsequent years full *input tax credits* would be allowed.

The Committee has examined the impact the transitional arrangements as announced are likely to have on the motor vehicle market. The Committee has also considered a number of other options for smoothing the transition. The Committee has sought the assistance from the Secretariat in providing revenue estimates of the alternate measures. Treasury has confirmed that these revenue estimates are consistent with the methodology employed in *Tax Reform: not a new tax, a new tax system* and are included in the body of the chapter. The Treasury estimates assume that the pattern of motor vehicle purchases are unaffected by price changes. Therefore the revenue estimates contained in this chapter are only indicative as it is expected that price changes would have some effect on the quantity of motor vehicles purchased.

In coming to its conclusions, the Committee has been conscious of the need to analyse the motor vehicle market in a holistic fashion. In particular, the Committee believes that further consideration needs to be given to the interaction of the new and used motor vehicle markets.

The Committee recognises the Government's policy of removing taxes imposing costs on business. Central to that policy is the removal of WST on goods including motor vehicles. However, the removal of the tax has the potential to distort buying patterns, particularly because of the substantial drop in the real costs to business (currently paying WST) from 1 July 2000.

Based on its terms of reference, it has been necessary for the Committee to take into account the impact of any recommendation on changes to the revenue. In considering the proposed transitional provisions the Committee has looked at a number of options which generate increased revenue and some which cause a loss to the revenue.

Many submissions have been lodged claiming that there will be a substantial drop in sales of motor vehicles to businesses currently paying WST, and to a lesser extent for sales to final consumers, in the lead up to 1 July 2000 and also (for businesses unable to claim input tax credits) in the period to 1 July 2002. By giving advance notice of the changes, the 2 to 3 year phasing in period has really extended to 3 to 5 years.

The Committee has not been able to establish the likely impact on the market and therefore to the motor vehicle manufacturing sector (including the component manufacturers) were there to be a drop in sales as claimed by the submissions.

Submissions from some motor vehicle manufacturers have claimed that a sharp decline in demand in the phasing in period may force some plant closures and temporary job losses. If this were to occur, then the closure of some major manufacturing plants would disrupt production and employment in the component manufacturing and motor vehicle retailing sectors of the industry.

Treasury estimates of revenue impacts of the various options canvassed in this review assume the ongoing sale of vehicles based on continuing trends.

Definition of Motor Vehicles

Each of the options considered below cover motor vehicles. However, the Government has not provided a definition of motor vehicles in the *Tax Reform: not a new tax, a new tax system* document. The Committee understands that the Government intends that any measures should cover motor cars, station wagons, motor cycles, panel vans, buses, trucks and semi-trailers. These are the major categories of vehicle that are sold in significant volumes and which, because they are used by businesses, will experience the largest price reductions.

The Committee understands that the Government's intention is that transitional measures will not apply to spare parts and accessories. The Committee accepts that options for phasing of the WST rate or denial of *input tax credits* should apply to motor vehicles only, not parts or accessories. Although there may be some scope for businesses to purchase de-optioned vehicles during the transition to avoid the effect of the measures, Treasury has advised the Committee that it does not expect that such practices would be widespread, given the inconvenience involved. Moreover, applying the transitional measures to parts and accessories would make the transitional measures complex. It would impose compliance costs on businesses, like specialist parts and accessory retailers, that would otherwise be unaffected.

The impact of tax reform on motor vehicle prices

Tax Reform: not a new tax, a new tax system provides estimates of motor vehicle price reductions of 8.3 per cent. This is the estimate of price reductions for final consumers. This estimate measures the impact on prices after all tax changes are passed on and includes the impact of the indirect tax reforms on the production costs of the motor vehicle industry.

Because business will receive *input tax credits* for any GST paid on their vehicle purchases they will, after the tax changes are fully implemented, experience larger price reductions than consumers. The estimated average long-run impact on prices to businesses is 16.6 per cent.

The Price Changes

In the case of non-luxury passenger motor vehicles, a price reduction of a little over 8.3 per cent can be confirmed by a separate calculation. The Commissioner of Taxation has approved a 'uniform taxable value' for WST purposes for these vehicles. Under this arrangement, the WST as a percentage of the tax inclusive retail price is 14.6 per cent. The estimated cost reduction for the 'motor vehicles and parts; other transport equipment' industry is 3.7 per cent. So the total price reduction arising from WST abolition and industry cost reductions is 17.8 per cent[1]. After GST is applied, the price reduction for consumers would be, on average, around 9 per cent[2].

For luxury vehicles, the price reductions will not be uniform. For vehicles currently priced within a range from around $55,000 to $80,000 the price fall will be greater than the reduction for lower priced vehicles. For vehicles currently priced above $80,000 the price fall will be lower than for vehicles priced under the existing luxury threshold, with the percentage price reduction decreasing for more expensive vehicles. The larger price falls for cars in the $55,000 to $80,000 range will occur because the new luxury threshold will be higher than the old threshold. That is, some vehicles that are subject to the 45 per cent WST rate will not be subject to the LCT.

For trucks, the 'uniform taxable value' arrangement does not apply. Price reductions can be expected to vary around 8-9 per cent depending on retail margins.

1. 1 - (1-0.146)*(1-0.037).

2. 1 - 1.1*(1-0.146)*(1-0.037).

The benefits of lower vehicle prices

It has been said that reductions in motor vehicle prices will deliver substantial long term benefits. The motor vehicle price reductions that are expected from the indirect tax changes will contribute significantly to the cost of living savings and industry cost reductions that the tax reforms will generate.

Purchasers of motor vehicles, including most businesses, have borne a high share of the WST burden, which has increased proportionately over time. A shift to a more broadly based indirect tax system will benefit motor vehicle purchasers and the motor vehicle industry. It will also contribute to the levelling of effective tax rates, increasing economic efficiency and Australians' living standards. The Committee is conscious that any transitional measures in the industry should be viewed against this background: the industry will receive significant long term benefits.

General transitional issues

However, the significant price reduction of motor vehicles raises two related transitional problems:

- the likelihood of a delay of motor vehicle purchases in the period before the indirect tax changes are implemented; and
- losses by owners of vehicles as a result of the price reductions.

To some extent these transitional problems are unavoidable if the benefits of significant price reductions are to be delivered to the community. The purpose of the transitional provisions is to mitigate, not eliminate, these adverse consequences.

Delay of vehicle purchases

The indirect tax changes are likely to have long term beneficial effects on motor vehicle manufacturers/distributors and dealers as lower prices lead to increased purchases. However, in the short term a 'buyer drought' may cause difficulties for some businesses.

It is difficult to quantify the impact of deferred purchases as there are a number of factors to consider which may be offsetting. Experience suggests that vehicle manufacturers/distributors and dealers may alter their pricing and marketing strategies to lessen the impact of the deferment of motor vehicle purchases.

The problems are exacerbated by the length of the lead time before the tax changes take effect. Other factors may ameliorate the impact on manufacturers and dealers.

- Manufacturers and dealers are likely to cut their margins in the months preceding the tax changes:

  - there is evidence that this occurred at the time the GST was introduced in Canada.

- Income tax cuts that take effect from 2000-01 may be anticipated by consumers during 1999-00 with positive demand effects in the motor vehicle industry.
- A significant proportion of new vehicles, approximately 30 per cent, is purchased by governments, primary producers, public hospitals, non-profit schools and other organisations that are exempt from WST. For this group, the price reductions will be only around 3 per cent.

Notwithstanding the complexity raised by these factors, it is highly likely that there will be some deferral of motor vehicle purchases in the absence of transitional measures. Businesses who currently pay WST are most likely to defer.

The Committee is also aware that any transitional issues may be more acute for the truck market compared to the passenger motor vehicle market primarily due to higher capital costs and longer effective equipment life. No specific distinction has been drawn between the different sectors of the motor vehicle market in the analysis below. However, a potential differential impact should be kept in mind when considering the various options. By way of illustration, taking the expected average price reductions as a guide, a $30,000 car may fall by approximately $2,500 to final consumers and $4,900 to business users currently subject to WST and eligible to full input tax credits of GST. In contrast the effective purchase price of a $200,000 truck may fall by approximately $33,200 (including payment of the input tax credit).

Holding losses

Owners of vehicles will experience losses in value as a result of the tax changes as resale values are depressed in anticipation of new vehicle price reductions. For most consumers this will not be of great concern. The value of their motor vehicles will fall, but so will the purchase price of any new car that they may buy in the future. Provided that they intend to replace their vehicle they should actually be better off following the price reductions. However, businesses holding a substantial stock of motor vehicles as assets will be adversely affected by substantial price reductions.

Substantial price reductions will affect anyone who owns a motor vehicle. Operating lessors are particularly exposed to changes in the price of the assets they lease. Operating lessors bear the risk associated with the decline in value of the goods over the life of an operating lease. An operating lessor will set the rental payments at a level that accounts for the expected loss in value of the leased goods over the life of the lease. An unexpected fall in the value of the goods over the life of the lease will adversely affect the lessor’s return.

The Committee understands that lessors have begun to build into new contracts a higher rental payment schedule in order to shift some of the loss in residual value that will occur to new lessees. Primarily those contracts in force prior to the announcement of the tax changes and which expire after implementation will be affected by an *unexpected* loss in residual value.

In the case of a finance lease the lessee bears the risk on the residual value of the asset. Therefore, finance lessees will be adversely affected by substantial price reductions. This is a symmetrical concern to that faced by the operating lessors.

New purchasers and finance lessees of motor vehicles can be expected to try to shift residual value losses either backward to manufacturers and finance lessors or (in the case of businesses) forward to customers.

New motor vehicle dealers may bear some of these losses if they are forced to reduce prices. However, they will not lose on stocks of vehicles on hand at the implementation date as these vehicles will not have borne WST due to the specific motor vehicle arrangements.

Options

The Committee has considered nine options for reducing the disruption to the motor vehicle industry during the transition to the new indirect tax arrangements. Each has been assessed in terms of its impact on the various affected groups, its administrative feasibility, and its revenue impact. The Committee has considered the transitional impacts on affected groups in the context of the overall benefits of the Government's policy to the community. In considering these options the Committee acknowledges that no solution will be acceptable to all interested parties. Some parties have an interest in immediate price reductions, others in keeping prices up to maintain asset values.

The Committee has examined the following options:

1. No special transitional measures for motor vehicles.
2. Maintaining the WST for motor vehicles.
3. Special GST rate to ensure no price change to consumers.
   — with full *input tax credits* for business.
4. Special GST rate to ensure no price change to consumers.
   — with phased *input tax credits* for business.
5. Three year phase down of sales tax commencing 1 July 1999.
6. Two year phase down of sales tax commencing 1 July 2000.
7. Phase down of sales tax and then transitional denial of *input tax credits*.
8. Phased denial of *input tax credits.*
   — 150 per cent in 2000-01, 100 per cent in 2001-02, 50 per cent in 2002-03.
9. Phased denial of *input tax credits*
   — 100 per cent in 2000-01, 50 per cent in 2001-02.

The options have only considered vehicles currently subject to WST at 22 per cent. No doubt there will be other options variant to those considered, but the Committee believes that the consideration of those canvassed in this report highlight the problems of addressing one group of interests at the expense of others.

1. No special transitional measures for motor vehicles

- All new motor vehicles delivered before 30 June 2000 would bear WST of 22 per cent.
- For motor vehicles delivered from 1 July 2000 registered motor vehicle sellers would be required to remit GST of 10 per cent.
- *Input tax credits* allowed from 1 July 2000.

Revenue Impact

The revenue impact of this option relative to the Government's proposal is:

1999-00	2000-01	2001-02	2002-03
-	-$1350m	-$950m	-$150m

Impact on stakeholders

Business

This option brings forward a major component of the benefits to business from the indirect tax reforms by allowing businesses to claim *input tax credits* on motor vehicle purchases immediately.

However, without special transitional rules for motor vehicles there is likely to be substantial disruption to motor vehicle related industries. Businesses currently subject to WST and entitled to *input tax credits* (from 1 July 2000) would have a greater incentive to delay purchases of motor vehicles for a period leading up to the introduction of the GST.

Exempt bodies

In each of these options 'exempt bodies' is a generic term for all those persons who currently purchase motor vehicles with a wholesale sales tax exemption. These include certain 4WD vehicles for primary producers and certain motor vehicles used by governments, public hospitals, non-profit schools and public benevolent institutions.

Exempt bodies under this option are treated the same as under the Government's proposal. Exempt bodies are able to access the current WST exemptions on motor vehicles and will have only a minor incentive to delay purchases of motor vehicles.

The current indirect tax system imposes hidden taxes on motor vehicles by taxing the goods used by some of the services used in their manufacture. The tax reforms will remove these hidden taxes on motor vehicles purchased by bodies currently exempt from sales tax.

However, exempt bodies would be disadvantaged by the expected fall in price in the second hand motor vehicle market. Currently exempt bodies may sell their WST exempt motor vehicle after two years or 40,000 kilometres. If the immediate fall in price of new motor vehicles were reflected in the second hand motor vehicle market, then exempt bodies would be worse off due to the lower asset value of the cars they hold at the transition date.

Further, exempt bodies currently benefit from selling motor vehicles into a second hand car market that is priced with reference to the tax-inclusive new car market. Under the WST system no WST is payable on the sale of second hand goods. This has allowed exempt purchasers to turn cars over with little net cost to themselves. The introduction of the GST will place other businesses on the same footing as the exempt purchases. Further, both exempt bodies and other businesses will be liable for GST on sales into the second hand market. These factors will reduce the relative benefit currently enjoyed by exempt bodies. With no specific transitional measures the benefit is eliminated from the introduction of the GST.

A fall in second hand car prices could cause exempt bodies (along with other vehicle lessees) to suffer increased costs on motor vehicle leases they have entered into as a result of:

- higher repayments on the residual value clauses of finance lease contracts; and
- higher lease payments on new operating leases.

Consumers

Under this option consumers are treated the same as under the Government's proposal. Consumers who are anticipating purchasing a new motor vehicle may delay purchases until 1 July 2000.

As discussed above, consumers who currently own a motor vehicle and who intend to sell without re-purchasing, however, would be worse off by the fall in value of the motor vehicle they own. This would be reflected in the fall in price in the second hand motor vehicle market.

Manufacturers and dealers

Manufacturers and dealers will benefit over the longer term from the general fall in price of motor vehicles.

However, motor vehicle manufacturers and dealers may suffer significant cash flow problems from the slump in new vehicle purchases that is likely to occur in the absence of special transitional rules. The disruption to manufacturers and dealers would be substantial if few motor vehicles are sold for a considerable period prior to the implementation of the GST.

Based on submissions lodged the proportion of sales of motor vehicles to fleet purchases who are currently subject to WST represents about 40 per cent of total sales. These sales are mainly of Australian manufactured vehicles.

Once the transitional phase is over, however, manufacturers and dealers should benefit as the suppressed demand for new vehicles is released and as the long run impact of lower prices is felt.

Lessors

Operating lessors will suffer a fall in the value of their current motor vehicle fleet. Under this option, lessors would suffer a larger loss compared with the Government's option. This is because granting *input tax credits* from the implementation date would have a larger depressing effect on used vehicle prices than if *input tax credits* are phased in.

Finance lessees would also suffer a fall in the value of their current motor vehicle fleet.

Overall Assessment

Overall with no special transition rules, there is likely to be a substantial deferment of business, and to a lesser extent consumer, purchases of new vehicles and a larger fall in the price of second hand vehicles. This is likely to lead to substantial industry disruption.

This option would also have a negative revenue impact compared with the Government's option.

This option is the only option which removes immediately the different treatments in the WST system whereby certain entities may purchase exempt motor vehicles, while other businesses may not.

2. Maintain WST for motor vehicles

- No GST on new motor vehicles.
- The current WST of 22 per cent would remain in place for new motor vehicles.
- Second hand vehicle sales would be WST and GST free.
- No credits for WST on motor vehicles.
- Currently exempt bodies would be able to purchase motor vehicles WST free.

Revenue Impact

The revenue impact of this option relative to the Government's proposal is:

1999-00	2000-01	2001-02	2002-03
-	$150m	$700m	$1650m

Impact on stakeholders

Business

By maintaining the current WST regime for motor vehicles past 1 July 2000 this option would reduce the incentive for businesses to delay purchases. Whilst there would be no reduction in direct tax, there would be some indirect effects from the reduction in industry costs associated with tax reform.

Maintaining the WST for motor vehicles would, however remove an important element of the long term benefits to business of indirect tax reform.

The option to maintain the current WST regime on motor vehicles would impose additional costs on many businesses relative to the Government's proposal. The current indirect tax system imposes arbitrary effective tax rates on business, which would be reproduced if sales tax were to remain on motor vehicles. For example, currently many mining and agricultural businesses may buy certain types of vehicles exempt from sales tax while most motor vehicles used in manufacturing and service businesses are subject to sales tax. However, mining and agricultural businesses also bear the costs of the current WST system in higher charges provided by service industries. For example, goods purchased in regional Australia would face higher costs because road transport industries would be ineligible for sales tax exemptions on trucks used to transport goods.

Businesses would be deterred from updating to the latest model vehicles according to otherwise sound commercial practice, as there would be a significant incentive to repair their current motor vehicles. Motor vehicle parts would be subject to GST while motor vehicles themselves would be subject to WST. Many businesses would therefore be able to claim *input tax credits* for repairs and repair parts, but would be charged non-creditable sales tax on any new motor vehicle purchases.

Exempt bodies

Since exempt bodies would be able to access the current WST exemptions on motor vehicles, they would benefit from the slight reduction in price of motor vehicles.

Compared to the Government's option, exempt bodies would benefit from higher resale values for their motor vehicles. In particular, exempt bodies would not be required to charge tax on their sales of second hand cars for the first time.

Consumers

Consumers wishing to purchase a motor vehicle would face a slight price reduction, but would be significantly worse off relative to the Government's proposal.

Motor vehicle parts would be subject to GST while motor vehicles would be subject to WST. Consumers would therefore face incentives to repair older vehicles rather than upgrade to new vehicles.

It is likely that second hand vehicle prices would fall slightly in line with the expected industry cost reductions. Resale value of motor vehicles currently owned by consumers would fall marginally.

Manufacturers and dealers

Manufacturers and dealers would be denied the general benefits from the Government's tax reform package. Unlike other goods and services sold to business, motor vehicles sold to business would not be creditable. This would significantly decrease the attractiveness of motor vehicles as business inputs relative to other inputs. Similarly, under this option relative to the Government's proposal, consumers would be less likely to increase the demand for motor vehicles.

On the other hand, since there would be little change in the price of motor vehicles relative to today's, there would be little incentive for consumers to change the timing of their purchases. This option would minimise industry disruption.

Lessors

This option protects the value of motor vehicle fleets by leaving the current tax system unchanged. In the medium term, however, lessors will be worse off compared with the Government's proposal because:

- There would be an element of double taxation of car leases, which, like other leases, will be subject to GST; and
- lessors would be denied the benefit of motor vehicle price reductions.

Overall Assessment

Overall, this proposal removes the long term benefits of tax reform for all groups as a trade off for relieving the transition impacts on manufacturers, dealers and current vehicle owners.

It has a positive revenue impact compared with the Government's proposal, but would also have a higher CPI impact.

It also imposes additional compliance and administration costs associated with the parallel operation of the WST and GST.

3. Special GST rate to ensure no price change to consumers — with full *input tax credits* for business

- All new motor vehicles delivered before 30 June 2000 would bear WST of 22 per cent.
- For new motor vehicles delivered from 1 July 2000 registered motor vehicle sellers would be required to remit GST of 19.5 per cent[3].
- *Input tax credits* allowed from 1 July 2000.
- Second hand vehicles subject to GST at 19.5 per cent.

Revenue Impact

The revenue impact of this option relative to the Government's proposal is:

1999-00	2000-01	2001-02	2002-03
-	-	$600m	$1550m

Impact on stakeholders

Business

This option provides to business the same fall in price of a motor vehicles as under Government's tax reform package, but immediately, rather than after two years. This is because, even though the rate of GST is almost double the standard rate, business would be eligible for *input tax credits* immediately. The incentive to delay purchases until the commencement of the GST would therefore be the same as if there were no transitional arrangements (Option [1]).

3. A GST rate rounded down to 19.5 per cent has been estimated to produce a zero impact on motor vehicle prices to consumers, under PRISMOD assumptions.

Some businesses, such as financial service providers, have input taxed activities and have restricted access to *input tax credits*. Such businesses would therefore be penalised relative to other businesses by the higher GST rate.

There would also be a larger price difference between motor vehicles used for private consumption and those for business consumption. This may increase the incentive for businesses to claim motor vehicles are being used for business purposes when they are actually being used for private purposes. Such evasion possibilities would threaten revenue, increase the costs to the Government of monitoring and enforcement, and possibly increase the costs of compliance.

The direct impact on the value of motor vehicles in the second hand market would be limited since sales into this market by registered businesses would be subject to the special motor vehicle GST rate. A small decrease in the price of second-hand vehicles could be expected as repairs and maintenance would be still subject to the standard 10 per cent rate.

Exempt bodies

Exempt bodies would have a minor incentive to delay purchase of motor vehicles since the GST would remove many hidden taxes in the current indirect tax system. The price reduction would be small given the price would fall by only the cost reductions in the motor vehicle industry.

This proposal imposes GST on the sale of second hand motor vehicles by exempt bodies. This would tax such transactions for the first time.

The special 19.5 per cent GST rate for motor vehicles maintain the value of the current stock of motor vehicles.

Consumers

This option denies benefits from the Government's tax reform package to consumers who are new car buyers.

Consumers who currently own motor vehicles would roughly maintain their resale values.

Manufacturers and dealers

This option maintains the thrust of the Government's tax reform package by eliminating the cascading WST. However, in the longer term, manufacturers and dealers will be denied the benefits from the growth in demand from lower prices to consumers. Demand from business, however, is likely to increase significantly.

Since this proposal would significantly decrease the cost of motor vehicles to business, motor vehicle manufacturers and dealers would still suffer from a temporary slump in demand under this option in the lead up to 1 July 2000. The continued purchases by exempt bodies and consumers would not be sufficient to completely offset the demand drought by business purchasers during this time.

Second hand motor vehicle dealers would be subject to 19.5 per cent GST on the value of their margin (where selling cars purchased from unregistered persons). Private consumers selling their motor vehicles second hand would not be subject to this GST (although they could not receive *input tax credits*). However, any adverse effect on the competitiveness of registered motor vehicle traders, would be exacerbated by the higher GST. One submission noted evidence from Canada and New Zealand that registered second hand dealers can be disadvantaged by practices involving used car sales in the unregistered sector.

Lessors

Lessors would benefit from the maintenance of the value of motor vehicles in the second hand motor vehicle market.

They would, however, suffer from the sharp swings in demand from their business customers. Business would be aware that after 1 July 2000 there would be significant reductions in the price charged by leasing companies on leases over new vehicles and would delay signing leases until this date.

Overall Assessment

Overall, this option delivers the benefits to business associated with replacement of the WST by the GST, while denying the benefits of motor vehicle price reductions to consumers. Input taxed businesses are also more harshly treated than under the Government's proposal.

There is still a transitional problem for manufacturers and dealers, although the problem of losses on vehicle holdings is lessened.

The revenue impact is positive relative to the Government's proposal. The impact on the CPI is also greater.

4. Special GST rate to ensure no price change to consumers — with phased *input tax credits* for business

- All new motor vehicles delivered before 30 June 2000 would bear WST of 22 per cent.
- For new motor vehicles delivered from 1 July 2000 registered motor vehicle sellers would be required to remit GST of 19.5 per cent.
- *Input tax credits* denied for first year of GST operation.
- Half *input tax credit* allowed in second year of GST operation. Full *input tax credits* then after.
- Second hand vehicles subject to GST at 19.5 per cent.

Revenue Impact

The revenue impact of this option relative to the Government's proposal is:

1999-00	2000-01	2001-02	2002-03
-	$2700m	$2900m	$1850m

Impact on stakeholders

Business

This option mirrors the Government's proposal in delaying the ability of business to claim *input tax credits*. However, this option is harsher to business in two ways:

- business pays a higher rate of tax as long as *input tax credits* are denied; and
- the fall in price of motor vehicles occurs in two stages instead of three.

This option would impose significant additional on-going costs on those firms that are unable to claim *input tax credits*, such as financial service providers.

Exempt bodies

Exempt bodies able to access the current WST exemptions on motor vehicles would have a minor incentive to delay purchase of motor vehicles since the GST would remove hidden taxes in the current indirect tax system. The price reduction would be relatively small given the price would fall by only the cost reductions in the motor vehicle industry.

The Government proposes to impose GST on the sale of second hand motor vehicles by exempt bodies. This would tax such transactions for the first time.

The special 19.5 per cent GST rate for motor vehicles would assist the current stock of motor vehicles to maintain their value.

Consumers

As with the previous option, this option denies benefits from the Government's tax reform package to consumers who are new car buyers.

Consumers who currently own motor vehicles would benefit from maintenance of their resale values.

Manufacturers and dealers

This option maintains the thrust of the Government's tax reform package by eliminating the cascading WST but imposes a higher GST rate on the motor vehicles.

In the longer term, manufacturers and dealers will be denied the benefits from the growth in demand from lower prices to consumers. Demand from business, however, will increase significantly.

Since this proposal would significantly decrease the cost of motor vehicles to business, motor vehicle manufacturers and dealers would still suffer from a temporary slump in demand under this option, although this would be moderated by the phasing in of *input tax credits*. The continued purchases by exempt bodies and consumers is unlikely to be sufficient to completely offset the slump in business demand during the transition.

Second hand motor vehicle dealers would be subject to 19.5 per cent GST on the value of their margin. Private consumers selling their motor vehicles second hand would not be subject to this GST (although they could not receive *input tax credits*). However, any adverse effect on the competitiveness of registered motor vehicle traders, would be exacerbated by the higher GST. One submission noted evidence from Canada and New Zealand that registered second hand dealers can be disadvantaged by practices involving used car sales in the unregistered sector.

Lessors

Lessors would benefit from the maintenance of value of motor vehicles in the second hand motor vehicle market.

In the medium term, lessors will benefit from lower prices for motor vehicles purchased for leases.

Overall Assessment

Overall, this option delivers the benefits to business associated with replacement of the WST by the GST, while denying the benefits of motor vehicle price reductions to consumers. Input taxed businesses are also more harshly treated than under the Government's proposal.

The transitional problem for manufacturers and dealers is addressed through a phasing in of input tax credits.

The problem of losses on vehicle holdings is lessened.

The revenue impact is positive relative to the Government's proposal, but the impact on the CPI is also greater.

5. Three year phase down of sales tax starting before implementation of GST

- The WST rate on motor vehicles would fall from 22 per cent to 19 per cent on 1 July 1999, then 17 per cent on 1 July 2000 and 15 per cent on 1 July 2001.
- The WST tax would be completely removed on 1 July 2002.
- For motor vehicles delivered from 1 July 2002, registered motor vehicle sellers would be required to remit GST of 10 per cent.
- Input tax credits allowed from 1 July 2002.

Revenue Impact

The revenue impact of this option relative to the Government's proposal is:

1999-00	2000-01	2001-02	2002-03	2003-04
-$450m	$1650m	$2050m	$100m	-

Impact on stakeholders

Business

This option would delay the full benefits to business from the Government's tax reform package. The Government's proposal allows for half the *input tax credit* to be claimed from 1 July 2001 — the second year of the GST implementation. This option, however, has a WST rate of 15 per cent in 2001, approximately double the burden on business compared to the Government's proposal.

The incentive for business to defer purchases is also greater under this option than under the Government's proposal. Under this option, on 1 July 2002 the WST of 15 per cent is completely removed and the GST of 10 per cent is fully implemented. Since business would be eligible for *input tax credits*, this represents a significant fall to business in the price of motor vehicles. As a result, there would be significant transitional issues around 1 July 2002.

Exempt bodies

Exempt bodies would benefit from the small cost reduction in motor vehicles as motor vehicle industry costs fall.

Exempt bodies would also benefit to the extent that slowly decreasing the price of motor vehicles, and 'double taxing' second hand sales, slows the fall in the value of second hand motor vehicles.

However, the fall in second hand car prices could nevertheless cause exempt bodies to suffer increased costs on motor vehicle leases they have entered into as a result of:

- higher repayments on the residual value clauses of finance lease contracts; and
- higher lease payments on new operating leases.

Consumers

This option delays the full benefit of the Government's tax reform package to consumers wishing to purchase new motor vehicles, while bringing forward by one year a small part of the eventual price reduction.

Consumers, like exempt bodies, would also benefit to the extent that slowly decreasing the price of motor vehicles, and 'double taxing' second hand sales, slows the fall in the value of second hand motor vehicles.

Manufacturers and dealers

This option delays the full demand effect of the Government's tax reform package on the motor vehicle market. Manufacturers and dealers would also still suffer from market disruption, particularly as business buyers anticipate the removal of the 15 per cent WST and introduction of the GST at 1 July 2002. This transitional disruption would be mitigated by the more even purchases of consumers.

Maintaining two separate indirect tax systems would increase the compliance costs to manufacturers and many dealers.

Lessors

This option would cause further disadvantage to lessors holding current operating leases with businesses and exempt bodies. Since the initial WST rate cut brings forward the fall in price of motor vehicles to 1 July 1999, contracts not affected by the Government's proposal will be affected by this proposal.

Lessors would also suffer losses to the extent that they cannot pass on the expected decrease in the residual value of motor vehicles onto customers in any new contracts.

Overall Assessment

Overall, this option smooths demand from consumers. However, the option worsens the incentives for business to defer purchases. As a result it does not address the key transitional issue which is the sharp fall in price to businesses entitled to input tax credits.

Significant additional revenue is raised under this option.

6. Two year phase down of WST commencing 1 July 2000

- The WST rate on motor vehicles would fall from 22 per cent to 12 per cent on 1 July 2000 and then 6 per cent on 1 July 2001.
- The WST would be completely removed on 1 July 2002.
- For motor vehicles delivered from 1 July 2000, registered motor vehicle sellers would be required to remit GST of 10 per cent.
- *Input tax credits* allowed.

Revenue impact

The revenue impact of this option relative to the Government's proposal is:

1999-00	2000-01	2001-02	2002-03
-	$1150m	$600m	-

Impact on stakeholders

Business

This option delivers to business around half of the price reduction for motor vehicles from 1 July 2000 by allowing claims on the full *input tax credit*, while maintaining a lower rate of non-creditable WST. This 'penalty' rate of WST is slowly phased out so that the WST ceases on 1 July 2002. This option approximates in its effect the Government's proposed transitional denial of *input tax credits* (with no WST). The incentive for business to defer purchases is therefore similar to the deferral incentives under the Government's proposal.

Input taxed businesses would be relatively more harshly treated during the transition because they would not be entitled to credits for either the WST or GST.

Exempt bodies

Exempt bodies would benefit from the small cost reduction in motor vehicles as motor vehicle industry costs fall.

Exempt bodies would also benefit to the extent that the penalty rate of WST on consumer and business purchases, and 'double taxing' second hand sales, slows the eventual fall in the value of second hand motor vehicles. This would maintain resale values of their existing vehicle holdings and reduce potential residual losses suffered by exempt bodies holding motor vehicle leasing contracts.

Consumers

This option delays the full benefits to consumers of cheaper motor vehicles envisaged in the Government's tax reform package by two years. This option slowly reduces the price of new motor vehicles to consumers by effectively charging a declining penalty rate of WST over and above the GST rate of 10 per cent. This option would also be expected to slow the eventual decline in second hand motor vehicle prices.

Manufacturers and dealers

This option is similar to the Government's proposal in its impact on manufacturers, except for the delayed increase in consumer demand caused by the penalty rate of WST. The Government's proposal gives consumers the full tax benefit immediately while staggering the benefit to business over two years as input tax credit become creditable. However, this option staggers the full benefit to consumers as well as business.

Maintaining two separate indirect tax systems would increase the compliance costs to manufacturers and many dealers.

Lessors

Relative to the Government's proposal, this option would delay slightly the impact on the value of second hand motor vehicles. To such an extent, this may ameliorate any losses lessors may suffer from holding operating leases over the transitional period.

Overall assessment

Overall, this option has a similar effect on motor vehicle prices to businesses during the transition as the Government's proposal. However, the benefits to consumers and input taxed businesses are delayed. The option raises significantly higher revenue.

7. Phase down of sales tax and then transitional denial of *input tax credits*

- The WST rate on motor vehicles falling from 22 per cent to 17 per cent on 1 July 1999 and completely removed on 30 June 2000.
- For motor vehicles delivered from 1 July 2000, registered motor vehicle sellers would be required to remit GST of 10 per cent.
- Input tax credits disallowed in first year of operation of GST; half input tax credits allowed in the second year.
- Currently exempt bodies able to claim *input tax credits* from the commencement of the GST.

Revenue impact

The revenue impact of this option relative to the Government's proposal is:

1999-00	2000-01	2001-02	2002-03
-$600m	-$50m	-	-

Impact on stakeholders

Business

This option brings forward some of the benefits envisaged for businesses under the tax reform package by reducing the WST rate on motor vehicles from 22 per cent to 17 per cent from 1 July 1999.

Exempt bodies

Exempt bodies will be slightly worse off than under the Government's proposal to the extent that this option causes exempt bodies to suffer earlier losses in the value of their existing motor vehicle holdings. The value of their motor vehicles being sold into the second hand motor vehicle market would be relatively lower during 1999-00.

Exempt bodies would also lose to the extent that they hold finance leases over motor vehicles.

Consumers

Consumers benefit from the lower price of motor vehicles being introduced one year earlier than envisaged under the Government's tax reform package.

Current holders of motor vehicles may be disadvantaged by an earlier fall in value of motor vehicles sold in the second hand market.

Manufacturers and dealers

Manufacturer and dealers would benefit from a smoothing of purchases of motor vehicles caused by the additional, earlier step down in the WST rate to 17 per cent on 1 July 1999. However, if the policy was pre-announced, manufacturers and dealers would suffer falls in sales prior to 1 July 1999. If the policy was imposed overnight, some consumers would be disadvantaged.

Lessors

This option would result in larger reductions in asset values for lessors holding current operating leases. Since the initial WST rate cut brings forward some of the fall in price of motor vehicles to 1 July 1999, previously unaffected lease contracts will become affected. A significantly higher proportion of lessors asset portfolios will be subject to reduced residual values. This means that such lessors will suffer a fall in value on even more of their motor vehicles held under contracts written before the announcement of the GST.

Overall assessment

This option differs only slightly from the Government's tax reform package. By lowering the sales tax on motor vehicles before the introduction of the GST it further smooths the transition. The step down in the WST rate for motor vehicles is consistent with the Government's treatment of other goods currently subject to the 32 per cent rate of sales tax, such as videos and televisions.

Operating lessors would be slightly more affected by the earlier price reductions. Manufacturers and dealers may benefit from an earlier boost to sales from the step down in the WST rate.

There would be a significant revenue cost relative to the Government's proposal.

8. Phased denial of *input tax credits* — 150 per cent in 2000-01, 100 per cent in 2001-02, 50 per cent in 2002-03

- The WST on motor vehicles completely removed on 30 June 2000.
- For motor vehicles delivered from 1 July 2000, registered motor vehicle sellers would be required to remit GST of 10 per cent.
- 150 per cent of *input tax credits* denied in the first year of operation of the GST.
- Full *input tax credit* denial in the second year.
- Half the value of the *input tax credits* allowed in the third year.
- Currently exempt bodies would be able to claim *input tax credits* from the commencement of the GST.

Revenue impact

The revenue impact of this option relative to the Government's proposal is:

1999-00	2000-01	2001-02	2002-03
-	$700m	$550m	$900m

Impact on stakeholders

Business

This option phases in the price reductions for businesses over a longer period than the Government's proposal. The prices of motor vehicles bought by businesses fall only marginally in the first year of the GST implementation. In the following years, the price falls to business are then the same as outlined in the Government's tax package, but delayed by one year.

The additional compliance costs associated with *input tax credit* denial will extend for another year compared with the Government's proposal.

Exempt bodies

Exempt bodies would benefit from the small cost reduction in motor vehicles as motor vehicle industry costs fall.

Since business would be denied a higher rate of *input tax credits*, and over a longer period of time, the impact of business sales on the second hand market will be delayed slightly relative to the Government's proposal.

This benefits exempt bodies by maintaining their resale values and by ameliorating any potential residual losses suffered by exempt bodies holding motor vehicle leasing contracts.

Consumers

Consumers receive the same benefit in lower priced new motor vehicles from this option as they do under the Government's proposal.

The value of motor vehicles currently held by consumers may be better maintained under this option. This is because the impact of business sales into the second hand market is likely to be delayed slightly relative to the Government's option.

Manufacturers and dealers

This option would delay the delivery of lower prices to businesses by an additional year and therefore delay the increase in demand from business purchases.

This option may more effectively smooth purchases of motor vehicles, however, since some businesses would find it too costly to delay purchases of new motor vehicles over the extended phase-in timetable.

Lessors

This option, relative to the Government's proposal, would deny *input tax credits* to lessors for a longer period of time, which would hold up the value of second hand cars for a longer period of time.

It would, however, allow lessors to sell ex-lease motor vehicles second hand for a short time at a marginally higher price than under the Government's proposal.

Overall Assessment

This option differs from the Government's tax reform package by extending the length of transitional denial of input tax credits and increasing the rate of denial to 150 per cent in the first year.

It further smooths the demand deferral by business purchasers, but in doing so delays the benefits of cheaper vehicles to businesses and the benefits of higher business demand to manufacturers and dealers.

Consumers and lessors are largely unaffected relative to the Government's proposal, except for slightly improved expected resale values of their vehicle holdings.

The Government benefits from substantially higher revenue.

9. Phased denial of *input tax credits* — 100 per cent in 2000-01, 50 per cent in 2001-02.

- This is the Government's proposal.
- The WST completely removed on 30 June 2000.
- From 1 July 2000 registered motor vehicle sellers would be required to remit GST of 10 per cent on all motor vehicle sales.
- *Input tax credits* denied for first year of operation of the GST.
- Half *input tax credits* allowed in the second year.
- Currently exempt bodies would be able to claim *input tax credits* from the commencement of the GST.

Impact on stakeholders

Business

This option phases in reductions in motor vehicle prices to business from 1 July 2000 when the GST is introduced until 1 July 2002 when full input tax credits are claimed.

By phasing in the ability to claim the full *input tax credit* over two years, the Government's proposal seeks to limit potential disruption to business activity caused by the steep fall in the price of motor vehicles, while not delaying excessively the benefits to businesses of lower vehicle prices. The phasing in of *input tax credits* will allow a more even distribution of business purchases of motor vehicles over the two year *input tax credit* phase in period. For many businesses, the costs of delaying new vehicle purchases until full input tax credits are available will outweigh the savings.

This option may, however, provide an incentive for some purchasers to delay purchases for longer than if there were no transitional measures. That is some business that would wait for the GST to be introduced (1 July 2000) if there were no measures, will under this option wait for the half of *input tax credits* (1 July 2001) or for full *input tax credits* (1 July 2002).

Exempt bodies

Exempt bodies benefit from 1 July 2000 by the cost reduction in motor vehicles as motor vehicle industry costs fall.

The Government's proposal mitigates the fall in value of motor vehicles in the second hand market by delaying the period in which businesses are eligible for the full price reduction in motor vehicles. This benefits exempt bodies by:

- ameliorating any potential residual losses suffered by exempt bodies holding motor vehicle leasing contracts; and,
- maintaining resale values of existing vehicle holdings.

Consumers

Consumers receive the full price reduction on new motor from 1 July 2000.

The Government's transitional denial of *input tax credits* to business will help maintain some of the value to consumers of their current motor vehicle holdings.

Because used vehicles will be subject to GST, the Government's proposal will lead to some degree of 'double taxing' of business motor vehicles bought before 1 July 2002. The burden of this tax is likely to fall partly on the selling businesses and partly on consumers of second hand vehicles.

Manufacturers and dealers

The Government's proposal delays by two years the full price reductions to business, thereby ameliorating the demand drought that would occur without transitional measures, but at the cost of some potential deferral of demand over the longer transition period.

The fall in the price of motor vehicles to consumers will be immediate. The industry will therefore feel the full benefit of increased consumer demand from 1 July 2000, but will experience a reduction in demand from consumers during 1999-00 as purchases are deferred.

Once the transitional arrangements are removed on 1 July 2002 the large reductions in indirect taxes levied on motor vehicles will significantly benefit the motor vehicle industry.

Lessors

The Government's proposal delays to lessors, like other businesses using motor vehicles as inputs, the full price reduction in motor vehicles for two years.

The Government's proposal mitigates the fall in value of motor vehicles in the second hand market by delaying the period in which businesses are eligible for the full price reduction in motor vehicles. This benefits lessors running operating leases contracted before the expected fall in price of second hand motor vehicles became known by reducing losses on residual values.

Overall assessment

Overall this option targets the greatest source of potential disruption to the motor vehicle industry; that is, the large reduction in vehicle prices to business. It spreads the price reductions over time to prevent a sharp slump in demand in 1999-00.

It delivers price reductions to consumers immediately, while giving vehicle lessors sufficient advance notice to restructure most contracts expiring after implementation date.

Second hand vehicles

The tax treatment of second hand vehicles will affect the magnitude of losses on resale values. The Government stated in *ANTS* that '…the general principle will be that GST applies to all goods and all services performed after the implementation date'. Accordingly, the Committee presumes that used vehicles will be subject to GST when sold by a registered business after 1 July 2000. This will result in a cascade of tax where a motor vehicle has borne WST or has been denied a GST input credit and is subsequently sold to an unregistered person.

Most of the options presented above are analysed assuming that GST applies to sales of second hand goods. The Committee accepts sales of motor vehicles that were originally purchased with WST, being sold with GST. The Committee recognises this as one of the consequences of changing between two systems. However, once the GST is operational, the Committee believes that it is not appropriate to apply full GST to the sale of a good where the original purchaser was denied an input tax credit. Accordingly, the Committee recommends that the Government consider options to limit the extent of GST liability on the sale of a good where the purchaser was denied an input tax credit.

Recommendation

The Committee has considered a range of options to mitigate the transitional effects on the motor vehicle industry. The Committee believes that any transitional arrangements should be considered in the context of the substantial long term benefits to the motor vehicle industry in Australia.

The Committee acknowledges the claims being made by the industry that there will be significant disruption as a result of the Government's proposed transitional arrangements. The Committee does not believe it is in a position to fully assess the precise validity of these claims. Indeed the Committee believes that the nature of the available data is such that it may be impossible to form definitive conclusions about the precise impact on various sectors of the motor vehicle industry. The Committee is also aware that industry participants have already begun to plan purchases and generally modify their behaviour in response to the Government's announced policy. Against this context, the Committee believes that, on the basis of the information available to it, that the Government's announced policy is not an unreasonable response to the difficult issues faced by the motor vehicle industry in the transition period. However, the Committee believes that the Government should satisfy itself that any adverse sectoral impacts to the motor vehicle industry are not likely to occur to the extent suggested.

Finally, the possibility of allowing a deferred *input tax credit* in respect of purchases of motor vehicles post 1 July 2000 would help to clawback the reduction in business costs effective from that time. It would also allow businesses the time to adjust to the overall impact of price reductions of motor vehicles on a tax-exclusive basis.

Government Policy

Activities that are *GST-free*

Health and medical care

The health sector in Australia has significant government involvement through direct subsidy and regulation. Many health services are provided to patients free of any direct charge or by means of a co-payment that is a fraction of the total cost of providing the service.

Applying taxes to health care would place the private health sector, with its heavier reliance on direct fees, at a competitive disadvantage with the public health system.

For this reason, most medical and hospital care services and health insurance will be *GST-free*. The cost of providing health care and insurance will fall as a result of the Government's indirect tax reforms as input taxes will be systematically removed from the sector.

Medical services

Medical services will be *GST-free* if they attract a Medicare benefit or are commonly used health services, listed by the Government. Examples of *GST-free* health services are:

Health services covered by Medicare:

- general practitioner and specialist consultations; and
- diagnostic, surgical and therapeutic procedures (for example, ophthalmology, neurology, optometry, radiation oncology, anaesthetics, radiology, ultrasound etc) and pathology.

Other medical services that will be *GST-free* include:

- hospital charges (accommodation etc);
- dental services;
- optical;
- physiotherapy, chiropractic;
- speech therapy;
- occupational therapy;
- counselling services;
- home nursing;
- dietary services; and
- podiatry.

The precise scope of qualifying medical services is a matter on which the Government will take a final decision following advice from the Tax Consultative Committee.

Hospitals and nursing homes

Health care provided at hospitals, nursing homes, hostels and similar establishments will be *GST-free*, as will nursing care services supplied to patients at home. The concession will extend to accommodation, drugs, dressings and meals supplied to patients or nursing home residents in the course of their treatment or care. Supplies of items not related to health care, such as food served in hospital cafeterias, or televisions rented to patients, will be taxable in the normal manner.

Medical appliances and aids

The supply of medical appliances for use by people with severe medical conditions or disabilities (examples include wheel chairs, crutches, artificial limbs and modifications to motor vehicles for the disabled) will be *GST-free*.

The precise scope of qualifying medical appliances is a matter on which the Government will take a final decision following advice from the Tax Consultative Committee.

Drugs and medicines

Drugs and medicines that can only be provided on prescription and PBS and RPBS medicines provided on prescription will be *GST-free*. The Government will take a final decision on the precise scope of qualifying drugs and medicines following advice from the Tax Consultative Committee.

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Activities that are *GST-free*

Education

Like health and medical care, education receives significant government assistance. Public primary and secondary education is provided free of charge and significant assistance is given to private schools and tertiary and vocational education. Applying the GST to education would discriminate against private providers.

Most educational services will therefore be *GST-free*. This treatment will apply to:

- tuition at or through a pre-school, primary or secondary school;
- tuition provided at a college, TAFE, university or other recognised institution that leads to a degree, diploma, certificate or other similar qualification; and
- the provision of accommodation at boarding schools.

The precise range of recognised institutions and courses that qualify as *GST-free* will be finalised following advice from the Tax Consultative Committee.

Some related goods and services will be taxable

All mainstream education will be *GST-free*. However, additional activities that would normally be taxed will not become *GST-free* simply because a school acts as a purchasing agent. Goods (such as computers and books) and services sold or leased to students by any educational institution will be taxable in the normal way. However, goods loaned to students free of charge will not be taxed.

Activities that are not *GST-free* include:

- the food component of boarding fees, and food and beverages sold to students (eg in tuck-shops);
- school bus services and uniforms;
- fees charged for equipment hire (eg musical instruments); and
- sales of goods and services for fundraising purposes.

Courses that do not lead to a recognised degree, diploma, or certificate, such as business training (for example, team development, writing skills etc) will be taxable. However, most businesses will be able to claim *input tax credits* for tax on course charges.

Childcare

Because childcare often includes an educational component, childcare provided at a recognised facility will be *GST-free*. As a result, childcare provided at facilities that receive government funding, or where the parents qualify for a government childcare payment, will be *GST-free*. This will apply to such things as long day care, short care (before and after school), family day care, occasional care and childcare facilities at fitness clubs and registered clubs.

Other forms of childcare, such as that provided by baby sitters, play centres, holiday camps, sporting and craft programmes will be taxable. However, many of these providers will be below the small business threshold ($50,000 for businesses and $100,000 per year for a non-profit organisation) and will not be required to charge GST.

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Activities that are *GST-free*

Charitable activities

Charities, public benevolent institutions, community groups and religious organisations operate differently from businesses. They often do not charge for the goods and services they supply, or impose only a nominal charge. Much of their funding and inputs are provided as donations.

Their charitable activities will be *GST-free*. Non-commercial supplies of goods or services by them will also be *GST-free*.

To avoid unfair competition with business, the commercial activities of these bodies will be taxable. Memberships of registered organisations (for example, local sporting clubs) will be taxable, but donations (which are not payments in return for services) will not be taxable.

In practice many community organisations will be below the $100,000 registration threshold and their memberships will not be taxed.

Religious services

Religious services will be *GST-free*. Churches and other institutions that supply religious services will not charge tax on those services and will be able to claim *input tax credits* for tax paid on their inputs.

Religious items for use in private devotion will be taxable. The precise range of religious services that will qualify as *GST-free* will be finalised following a report from the Tax Consultative Committee.

GST transitional arrangements

To ensure a smooth transition from the wholesale sales tax to the GST, certain transitional arrangements will apply.

Credit for wholesale sales tax on tax-paid stock

When the GST is introduced, many businesses will be holding inventories of new goods for sale on which wholesale sales tax will have been paid. To prevent double taxation, businesses may claim a credit of the wholesale sales tax paid on stock against their GST liability.

Harmonising wholesale sales tax rates

After the GST is introduced, many goods will fall in price. In particular, so called 'luxury' goods taxable at the 32 per cent wholesale sales tax rate (for example stereos and televisions), are likely to fall in price.

To avoid consumers holding off on purchases, the Government will reduce the 32 per cent wholesale sales tax rate (other than that applying to furs and jewellery) to the standard 22 per cent rate immediately following the passage of the GST legislation.

Phase in of *input tax credits* for motor vehicles

The introduction of the GST will significantly reduce the cost of business by providing *input tax credits.* This causes a transitional problem as businesses that currently bear wholesale sales tax may delay some of their purchases so that they can get *input tax credits.*

The Government is concerned that this may disrupt the motor vehicle market.

To alleviate this problem the Government will phase in *input tax credits* for motor vehicles over a two year period. In the first year of operation no input credits will be allowed for motor vehicle purchases. In the second year, half the value of the full *input tax credit* will be allowed. Full *input tax credits* will be available in the third year and the system will be fully operational.

Bodies that can currently purchase motor vehicles exempt from wholesale sales tax will not be affected by this measure. These bodies would have no incentive to delay purchases and so they will be able to claim full *input tax credit*s from the date of implementation.

The Government will take a final decision on these matters following advice from the Tax Consultative Committee.

Contracts that span the implementation date

Some contracts and agreements will span the date of implementation of the GST. Where this occurs, the general principle will be that GST applies to all goods delivered and all services performed after the implementation date.

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How will the GST apply to health services?

The treatment of health is designed to keep the public and private sectors on an equal competitive footing.

Applying the goods and services tax (GST) to health care would place the private sector, with its heavier reliance on direct fees, at a competitive disadvantage.

Most health services will be GST-*free*. Moreover, providers will have lower costs with the abolition of wholesale sales tax (WST) coupled with access to GST *input tax credits*.

As a result of the tax package, industry costs faced by the health services sector will decline by $820 million.

Post-election consultation

The precise scope of the medical goods and services that will be GST-*free* will be subject to consultation following the election through the Tax Consultative Committee chaired by a distinguished Australian.

How are medical services treated?

Medical services will be *GST-free* if they attract a Medicare benefit or are commonly used health services, listed by the Government. Examples of *GST-free* health services are:

Health services covered by Medicare:

- general practitioner and specialist consultations; and
- diagnostic, surgical and therapeutic procedures (for example, ophthalmology, neurology, optometry, radiation oncology, anaesthetics, radiology, ultrasound etc) and pathology.

Other medical services that will be GST-free include:

- hospital charges (accommodation etc);
- dental services;
- optometry;
- physiotherapy, chiropractic;
- speech therapy;
- occupational therapy;
- counselling services;
- home nursing;
- dietary services; and
- podiatry.

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How will the GST apply to health services?

Will I pay more when I go to my GP?

No. Medical services provided by a General Practitioner will be GST-*free*.

Will specialists cost more?

No. Medical services provided by specialists will also be GST-*free*.

Will the GST affect bulk billing?

No. All medical services that attract a Medicare benefit will be GST-*free*.

Will the cost of treatment in a hospital rise?

No. The provision of health services that attract a Medicare benefit will be GST-*free* whether provided through public or private hospitals.

Medicines provided in the course of hospital treatment will be GST-*free*.

Other common health services (eg physiotherapy, dental, optometry etc) will also be GST-*free*.

Will the GST apply to hospital accommodation and food?

Accommodation, drugs, bandages and meals provided to patients by hospitals will be GST-*free*. Purchases of food from hospital gift shops will be taxable.

Will going to the physio cost more?

No. Physiotherapy is among those commonly used health services that will be GST-*free*.

Will I pay more if I go to the dentist?

No. While routine dental services do not attract a Medicare benefit, all medical services provided by a dentist will be GST-*free*. As with GPs and specialists, the cost to the dentist of providing the service will be reduced by the introduction of the GST.

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How will the GST apply to health services?

Will I pay more at the pharmacist?

Prescription only drugs, Pharmaceutical Benefits Scheme (PBS) drugs and Repatriation PBS drugs provided on prescription will be GST-*free*.
For example, ventolin for asthmatics provided on prescription will be GST-*free*.

Other pharmacy items will be subject to GST, but pharmacies can expect some reduction in the cost of their operations through the removal of hidden input taxes on items such as computers.

The precise scope of drugs and medicines will be subject to consultation following the election.

Will basic items like bandaids and pain killers cost more?

Small medical items such as bandaids and bandages will be subject to the GST and can be expected to rise in price. Pain killers purchased at the supermarket or chemist without prescription will also be subject to GST.

Will alternative health practitioners (such as aromatherapists) be subject to GST?

Medical services provided by alternative health practitioners will be subject to GST. However, the alternative health practitioner will be able to claim *input tax credits* for any GST paid on inputs used in providing the service.

Will medical aids and appliances be taxed?

Medical and surgical aids and appliances for people with severe medical conditions and disabilities (eg artificial limbs, crutches, wheelchairs and modifications to motor vehicles) will be GST-*free.*

Will the GST apply to private health insurance?

Private health insurance premiums will be GST-*free*. This measure will reduce the cost of providing private health insurance.

For further information

'A New Tax System' — Chapter 2.
Other fact sheets: No. 200 — 'The GST at a glance' and No. 206 — 'GST Glossary: What do the new terms mean?'.
The Government's Tax Reform Website: http://www.taxreform.gov.au
Tax Reform Information Centre: Telephone 13 30 99

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How will the GST apply to nursing homes, hospices and hostels?

Generally nursing homes, hospices and hostels will not be subject to the goods and services tax (GST).

The precise scope of health services for the aged that will be GST-*free* will be the subject of consultation following the election.

Will it cost more to put a relative in a nursing home or hospice?

No. Goods and services (accommodation, medicines, meals etc) supplied as part of a resident's care will be GST-*free*. Some minor additional charges for services such as hair cuts and hire of televisions will be subject to GST.

Will home nursing care be subject to the GST?

No. They will be GST-*free*. Nursing home services provided to the elderly in their own home, including Home and Community Care services, will be treated in the same manner as if the person had been a resident in a nursing home.

Will the purchase of a new dwelling in a retirement village be subject to GST?

Yes. The construction and sale of new homes will be subject to the GST in the normal manner even where the home is part of a retirement complex. The sale of an existing home will not be taxed.

What about charges related to health services received within the retirement village?

Separate charges for health services received within a retirement village will be GST-*free*. This is consistent with the overall treatment of health services.

Will pension increases be quarantined from nursing home fees?

Yes. The Government will take whatever steps are necessary to ensure that the full 4 per cent increase in pensions flows through to pensioners.

For further information

'A New Tax System' — Chapter 2.
Other fact sheets: No. 200 — 'The GST at a glance' and No. 206 — 'GST Glossary: What do the new terms mean?'.
The Government's Tax Reform Website: http://www.taxreform.gov.au
Tax Reform Information Centre: Telephone 13 30 99

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How is the Government making private health insurance more affordable?

The Government is committed to making private health insurance more affordable and more accessible for all Australians. To this end, the Government is replacing the current Private Health Insurance Incentives Scheme (PHIIS) with a more generous tax rebate / benefit which will be available to all private health fund members. The new initiative will be available as a rebate on tax or a direct payment from the Government. The PHIIS will continue to operate up to the introduction of the new initiative. This means current PHIIS recipients will be entitled to part-year assistance for 1998-99.

The new rebate will cost around $1 billion in its first full year of operation.

Who will be eligible for the tax rebate/benefit?

Eligibility for the new initiative will not be means tested. All members of private health funds will be eligible for the tax rebate / benefit.

When will the tax rebate/benefit take effect?

The new tax rebate / benefit will take effect from 1 January 1999.

What level of assistance will the new initiative provide?

Members of private health funds will receive a 30 per cent benefit on the cost of their health insurance contributions — as either a rebate on tax or a direct payment from the Government. For example, a family with annual private health insurance contributions of $2,000 will be entitled to a rebate of $600.

Under the new tax system, the new benefit is as generous or more generous than full income tax deductibility for health insurance premiums for more than 80 per cent of taxpayers. However, it is fairer than a tax deduction because income tax deductibility would only assist those people with sufficient tax liability to take advantage of the deduction.

How will the tax rebate/benefit be paid?

The new initiative will be administered by the new Family Assistance Office. Taxpayers will be able to claim a tax rebate when they lodge their annual taxation return. Alternatively, a direct payment from the Government will be available from an extensive network of shopfronts or through the mail.

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How is the Government making private health insurance more affordable?

Those families and individuals who pay for private health insurance through a single premium payment can seek an immediate direct payment by providing proof of purchase to the Family Assistance Office. For those who pay their insurance by instalment, a direct payment will also be available by instalment.

For further information

‘A New Tax System’ — Chapter 1.
Other fact sheets: No. 231 — ‘How will the GST apply to health services?’ and No. 233 — ‘How will the GST apply nursing homes, hospices and hostels?’.
The Government’s Tax Reform Website: http://www.taxreform.gov.au
Tax Reform Information Centre: Telephone 13 30 99

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How will the GST apply to education?

Most education services will be GST-*free*. The new tax system will see the costs for the education sector fall by $240 million.

The proposed treatment of education recognises that education is provided at public schools free of charge or for small voluntary contributions. Applying a goods and services tax (GST) to education would discriminate against private providers.

The precise range of recognised institutions and courses that qualify as GST-*free* will be subject to consultation following the election.

Will the GST apply to tuition fees?

Tuition is GST-*free*

No. School fees for tuition provided by a pre-school, primary or secondary school will be GST-*free* whether provided by a private or public school.

Tuition provided by a college, TAFE, university or other recognised tertiary institution that leads to a degree, diploma, certificate or other similar qualification will also be GST-*free*.

Goods supplied to students free of charge will also be GST-*free*.

Will the GST apply to accommodation?

Accommodation is either GST-*free* or *input taxed*

The provision of accommodation at boarding schools will be GST-*free*.

Accommodation at University Colleges will be *input taxed* in line with the treatment of other long-term accommodation. This means that GST will not apply to University College fees, but these Colleges will not be able to claim *input tax credits*.

What education related items are subject to GST?

Some activities are subject to GST

Some education related activity will be subject to the GST, such as recreational and short occupational courses, holiday camps, sporting and craft programs.

Most registered businesses will be able to claim *input tax credits* for GST paid as part of the cost of occupational courses.

Goods sold or leased to students will be subject to GST to prevent schools unfairly competing with other business by selling items like uniforms, sporting equipment, books and computers.

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How will the GST apply to education?

Other activities, separate to tuition fees, that are not GST-*free* include:

- the food component of boarding fees, and food and beverages sold to students, eg in tuck-shops;
- school bus services and excursions;
- fees charged for equipment hire (eg musical instruments); and
- sales of goods and services for fundraising purposes (eg the school fete).

However, if the fundraising is done by an organisation below the threshold for registration ($100,000 for non-profit bodies) the GST will not apply to the sales. For example, if a Parents and Friends organisation is below the threshold, then they could run a fete and make a donation to the school. GST would not apply.

For further information

‘A New Tax System’ — Chapters 2.
Other fact sheets: No. 200 — ‘The GST at a glance’ and No. 206 — ‘GST Glossary: What do the new terms mean?’.
The Government’s Tax Reform Website: http://www.taxreform.gov.au
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How will the GST apply to charitable activities and religious services?

Activities

Non-commercial activities conducted by charities will be GST-*free*, provided the charities are eligible for income tax deductibility.

This means their services are not subject to the goods and services tax (GST) and they can claim *input tax credits* for any GST paid on their inputs.

Commercial activities of charities will be subject to GST to avoid unfair competition with other businesses.

- For example, sales by a charity bookshop selling new books to the public will be subject to GST in the same way as sales from other bookshops.

All activities conducted by charities will benefit from the fall in industry costs resulting from the introduction of the new tax system and the abolition of a number of inefficient taxes.

Services

Religious services will be GST-*free*. Churches and other institutions that provide religious services will not charge GST on them and they will be able to get *input tax credits* for GST paid on their inputs.

Post-election consultation

The precise scope of non-commercial charitable activities and religious services that will qualify as GST-*free* will be subject to post-election consultation through the Tax Consultative Committee, chaired by a distinguished Australian.

Donations

Donations to charities will not be subject to GST. Donations are not payments in return for goods or services.

Higher GST threshold

Charities, as well as all other non-profit bodies, will be subject to a higher GST registration threshold.

If a normal business has annual sales of $50,000 or more, it will be required to register for GST. For all non-profit bodies, which will include most, if not all charities, this threshold will be $100,000.

For further information

'A New Tax System' — Chapter 2.
Other fact sheets: No. 200 — 'The GST at a glance' and No. 206 — 'GST Glossary: What do the new terms mean?'.
The Government's Tax Reform Website: http://www.taxreform.gov.au
Tax Reform Information Centre: Telephone 13 30 99

What transitional arrangements will be put in place for the introduction of the GST?

Without transitional arrangements some people will take advantage of the change to the goods and services tax (GST) while others could be unfairly disadvantaged.

For example, consumers and businesses may delay the purchase of goods that are subject to high rates of wholesale sales tax (WST) to take advantage of price falls expected to occur after the introduction of the GST. Businesses who currently pay WST may also delay the purchase of motor vehicles in order to obtain an *input tax credit*. In the absence of effective transitional measures there is also a risk that some goods could be subject to both the WST and the GST.

The Government has designed transitional arrangements to address these issues.

Post-election consultation

Close cooperation between business and the Government will ensure that close attention is paid to transitional issues. The Tax Consultative Committee, chaired by a distinguished Australian, will be established to advise the Government and to ensure that the views of the business community are fully taken into account during the transition period.

Offset for WST paid

Businesses holding WST-paid stock for resale will be allowed a credit (equal to the WST paid on their stock) to be offset against their GST liability. This will ensure that only one tax (the GST) applies to such stock.

Phase out luxury WST rate

The 32 per cent WST rate will be phased down to reduce market disruption. Items (excluding furs and jewellery) currently taxed at the 32 per cent WST rate will initially be subject to the standard 22 per cent rate from the date of passage of the GST legislation.

Phase in of *input tax credits* for motor vehicles

Allowing immediate full GST *input tax credits* for motor vehicles could disrupt motor vehicle markets, as businesses currently bearing WST on vehicles could delay purchases.

Full *input tax credits* for motor vehicles will therefore be phased in over two years. No *input tax credits* will be allowed for motor vehicle purchases in the GST's first year of operation. In the second year, half the value of the standard *input tax credit* will be allowed.

- Bodies that currently purchase motor vehicles exempt from WST will have no incentive to delay purchases. They will be able to claim full input tax *credits* from the date of implementation.

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What transitional arrangements will be put in place for the introduction of the GST?

GST implementation date is critical for contracts and leases

Where contracts for the supply of goods and services span the implementation date for the GST, the time of delivery of goods or the time of performance of the services will determine whether the supply is subject to WST or GST.

For construction contracts spanning the implementation date, a valuation at implementation date will determine the part of the contract completed at that date that will not be subject to GST. The remaining part completed after implementation date will be subject to GST.

- Full *input tax credits* will be available for any GST paid on inputs bought after the implementation date.

Payments under a lease will be subject to the GST only to the extent that they are attributable to a period after the implementation date.

For further information

‘A New Tax System’ — Chapter 2.
Other fact sheets: No. 200 — ‘The GST at a glance’ and No. 206 — ‘GST Glossary: What do the new terms mean?’.
The Government’s Tax Reform Website: http://www.taxreform.gov.au
Tax Reform Information Centre: Telephone 13 30 99

PRIME MINISTER

CANBERRA

Mr Stuart Hamilton
Executive Director
Australian Vice-Chancellor's Committee
GPO Box 1142
CANBERRA ACT 2601

24 SEP 1998

Dear Mr Hamilton

Thank you for the letter on behalf of several national education and parents organisations relating to the impact of the Coalition's proposed taxation package on Australia's education system.

I would appreciate it if you would forward my response to the issues you have raised to the attention of each of the signatories.

The Government regards education as vital to ensuring that Australia remains an economically competitive and socially harmonious society. We are pursuing policies, which are expanding access to educational opportunities at all levels, and lifting the resources available to education and training institutions.

The importance of education and training to Australia's future has been a key consideration in the design of our tax reform program. As the numbers of private providers increase alongside public providers we have been determined to put in place a tax system which places providers in both sectors in a comparable position. We have therefore decided that educational services will be GST-free in the terms stated in our Plan for a New Tax System.

You have raised six matters with me about the implications of this decision, and I am pleased to respond to you on each point.

1. The meaning of 'tuition'.

I confirm the advice which has been provided to you by Dr. Kemp and Senator Ellison that tuition includes all activities undertaken within the various educational and training as part of providing tuition. Thus research and scholarship activities of universities and school provided services which contribute to the achievement of the National Goals of Schooling are all GST-free.

There will be no need for education providers to distinguish between GST paid on inputs for GST-free activity and inputs for GST-liable activity.

A distinction is drawn between boarding accommodation provided at schools for school-age students and accommodation at tertiary institutions because the latter directly competes with accommodation provided outside the institution.

2. Costs of materials

The costs of many education-related items to students and/or parents will fall as a result of the Government's tax reform. Items as significant as computers and as small as stationery will all be reduced in cost as the wholesale sales taxes they carry at the moment are eliminated and replaced by the GST.

It is simply not correct to say that the increased costs of some items will put tuition out of reach of those at the margin. The typical family will be some $40-$50 a week better off as a result of the income tax reductions which form an integral part of the package after the effects of the GST on prices have been taken into account. The tax reform package includes not merely compensation but significant tax relief. Many in the community will actually be much better placed to pursue education and training than they are at the present time.

3. Courses covered.

Courses which are preparatory to the educational courses which are GST-free are also GST-free. Many adult and community courses, including adult literacy and numeracy courses, provide competencies which are recognised within the National Training Framework, or can contribute to a senior secondary certificate. All such courses would be GST-free. It is not necessary that a student actually take out a certificate or a qualification provided that the tuition provided could contribute to such a certificate or qualification if the student chose to pursue it.

4. Parent Organisations

Non-profit organisations with annual turnovers less that $100,000 are not required to charge GST. It could, of course, be beneficial for organisations with smaller turnovers to register because it would enable them to claim rebates on GST paid on inputs.

5. Cash-flow impact.

Education institutions will not necessarily be disadvantaged by an adverse cash-flow impact. As most businesses operate on credit terms, they usually have 30 days to pay suppliers. It should be possible for educational institutions to arrange their payments to suppliers to be made close to the date they send their paperwork to the Tax Office. Other aspects of the tax reform package, such as the abolition of FID and BAD and lower fuel costs, and the removal of WST levied at 22% and 32% rates, will of themselves have significant positive cash flow benefits for educational institutions, even before the GST credit is provided.

Overall, Federal Treasury estimates that educational institutions will benefit from a reduction in costs of $720 million over three years. All sectors will also benefit from the reduction in the costs of scientific research, technical and computer services of $900 million per year ($2.7 billion over three years). Additional benefits will flow from the reduction in the costs of other major items such as motor vehicles where WST exemptions do not currently apply. These benefits must be offset against the short-term cash flow implications of rebatable GST paid on inputs.

6. Overseas students.

I can confirm that overseas students studying in Australia will not pay GST on education services which are GST-free for Australian students.

I am pleased that you agree that the Tax Consultative Committee will be a suitable forum to settle the detail of how the taxation proposals will operate. I will be pleased to have representation from the education sector on this committee.

Educational and training institutions - and individuals and families pursuing education - will benefit substantially from the Government's tax reform proposals. I trust that this letter has clarified for you the implications of the Plan for a New Tax system.

Yours sincerely

John Howard

(John Howard)

References

Health

Australian Health Care Agreements 1998-2003

National Health Act 1953

Health Insurance Act 1973

Aged Care Act 1997 (Quality of Care Principles)

Home and Community Care Act 1985

Disability Services Act 1986

PBS – Schedule of Pharmaceutical Benefits

RPBS – Repatriation Schedule of Pharmaceutical Benefits

Standard for the uniform scheduling of drugs and poisons

Education

Student Assistance Act 1973

Social Security Act 1991

Determination of Education Institutions and Courses under Subsections 3(1) and 5(D) of the *Student Assistance Act 1973* (see attached)

Higher Education Funding Act 1988

Schedule 9 to the *State Grants (Primary and Secondary Education Assistance) Act 1996*

Religious Services

Non-commercial activities of charities

Determination

EXPLANATORY STATEMENT

Subsections 3(1) and 5D(1) of the *Student Assistance Act 1973*.

Determination of Education Institutions and Courses under Subsections 3(1) and 5D(1) of the *Student Assistance Act 1973*

Determination No. 1998/2

Issued by the authority of the Minister for Schools, Vocational Education and Training

Reason for the Determination

Consequential to the introduction of the Youth Allowance, amendments to the *Student and Youth Assistance Act 1973* have been made to repeal current AUSTUDY provisions effective from 1 July 1998. From this date, the Act will be retitled '*Student Assistance Act 1973*'

Subsections 3(1) and 5D(1) of the revised Act provide that the Minister determine what is an approved education institution and an approved course for the purposes of the Act

In relation to payments to students from 1 July 1998, the *Social Security Act 1991* requires, for the purposes of the Youth Allowance, Austudy payment and the Pensioner Education Supplement, that a person be enrolled for and undertaking study at an education institution and in a course determined by the Minister under the *Student Assistance Act 1973*.

Reason for Tabling the Determination of Courses

Subsections 3(2A) and 5D(3) of the *Student Assistance Act 1973* provide that Ministerial determinations are disallowable instruments for the purposes of Section 46A of the *Acts Interpretation Act 1901* and are to be tabled in the Parliament and gazetted.

The Determination of Education Institutions and Courses

Determination 1998/2 will repeal Determination 1998/1 made for the purposes of the AUSTUDY scheme. It will commence on 1 July 1998 and remain in force until revoked.

Determination 1998/2 describes the types of education institutions for the purposes of the Act and the conditions under which institutions are approved. In addition, it prescribes the types of courses which are considered to be at the secondary or tertiary level for the purposes of payments to students under the *Social Security Act 1991*

Commonwealth of Australia

Student Assistance Act 1973

DETERMINATION OF EDUCATION INSTITUTIONS AND COURSES UNDER SUBSECTIONS 3(1) AND 5D(1) OF THE *STUDENT ASSISTANCE ACT 1973*

Determination No. 1998/2

I, CHRISTOPHER ELLISON, Minister for Schools, Vocational Education and Training, make the following Determination under subsections 3(1) and 5D(1) of the *Student Assistance Act 1973*.

Dated 23rd JUNE 1998

CHRISTOPHER ELLISON
Minister for Schools, Vocational Education and Training

Citation

1. This Determination may be cited as Determination No. 1998/2 - Determination of Education Institutions and Courses under subsections 3(1) and 5D(1) of the *Student Assistance Act 1973*.

Commencement

2. This Determination will commence on 1 July 1998.

Repeal

3. The *Student and Youth Assistance Act 1973* Determination No 1998/1, entitled "Determination of Courses for the purpose of paying AUSTUDY" and made on 1 May 1998, is hereby repealed

Interpretation

4. In this Determination, unless the contrary intention appears:

"accredited higher education course" means a course that is:

(a) accredited as a higher education course by the authority responsible for the accreditation of higher education courses in the State or Territory in which the course is conducted; or
(b) if a higher education institution or a non-government higher education institution is authorised by the law of the State or Territory in which the institution is located to accredit its own higher education courses - a course conducted and accredited as a higher education course by that institution;

"accredited secondary course" means a course accredited as a secondary course by the authority responsible for the accreditation of secondary courses in the State or Territory in which the course is conducted;

"accredited vocational education and training course" means a course:

(a) accredited as a vocational education and training course by the authority responsible for the accreditation of those courses in a State or Territory; and
(b) which is an activity under the Australian Vocational Education and Training Management Information and Statistical Standard, excluding all recreation, leisure and personal enrichment activity identified as Stream 1000.

"Act" means the *Student Assistance Act 1973*;

"AQF" means the Australian Qualifications Framework guidelines;

"ARF" means the Australian Recognition Framework;

"education institution" means an institution determined under subsection 3(1) of the Act specified in paragraph 5 of this Determination;

"endorsed Training Package" means a Training Package of national vocational qualifications based on industry competency standards which has been endorsed by the National Training Framework Committee of the Australian National Training Authority and endorsed by the relevant Ministers;

"ESL course" means a course of instruction in English as a second language;

"higher education institution" has the same meaning as in paragraph 5 of this Determination;

"Masters qualifying course" means a bridging course which gives participants the qualifications necessary for entry into a Masters degree course, but does not include any course which forms part of a Masters degree course;

"NBCOTP" means the National Office of Overseas Skills Recognition Bridging Course for the Overseas Trained Programme;

"New Apprenticeships Access programme" means an accredited vocational course meeting the requirements of the Australian Recognition Framework and conducted by a Registered Training Organisation and designed to provide preliminary training for those who are registered as unemployed and disadvantaged in the labour market prior to their participation in a New Apprenticeship;

"non-government higher education institution" has the same meaning as in paragraph 5 of this Determination;

"non-government Registered Training Organisation" has the same meaning as in paragraph 5 of this Determination;

"Preparatory course" means a programme designed to assist people to gain entry to higher education level courses at a higher education institution and includes a tertiary bridging course conducted by a higher education institution;

"RATE" means the Register of Australian Tertiary Education;

"Registered Training Organisation" means an organisation or education institution that is registered by the relevant State or Territory training recognition authority in accordance with the Australian Recognition Framework to provide vocational education and training, excluding those solely registered to provide skill recognition (assessment only) services;

"secondary school" has the same meaning as in paragraph 5 of this Determination;

"special school" has the same meaning as in paragraph 5 of this Determination;

"Stream 2000 course" means an accredited vocational education and training course that is an activity within Stream 2000 of the Australian Vocational Education and Training Management Information and Statistical Standard (a course that provides remedial education or involves preparatory activities to enable participation in subsequent education or social settings and is of a type which aims to achieve basic skills and standards or to prepare students for further education); and

"TAFE institution" has the same meaning as "technical and further education (TAFE) institution" in paragraph 5 of this Determination.

Education institutions

5. (1) For the purposes of the Act, the following are regarded as education institutions:

(a) a **"secondary school"**, being an institution located in Australia that is:
  (aa) a government secondary school; or
  (ab) a non-government secondary school that is not conducted for profit of a person and is recognised as a secondary school:
    (i) under the law of a State or Territory; or
    (ii) for the payment of government capital or recurrent grants; or
    (iii) for the payment of government bursaries or allowances to its students.

(b) a **"technical and further education (TAFE) institution"**, being an institution that is a Registered Training Organisation and is conducted by a Commonwealth, State or Territory government authority.

(c) a **"higher education institution"**, being an institution listed in section 4 or paragraphs 34(3)(b)-(h) (inclusive) of the *Higher Education Funding Act 1988.*

(2) For the purposes of the Act, the following institutions, authorities or bodies are to be regarded as education institutions:

(a) a **"special school"**, being a school located in Australia that is conducted primarily for students having a mental or significant physical disability and is:
  (aa) a government school; or
  (ab) a non-government school that is not conducted for the profit of a person and is recognised as a secondary school:
    (i) under the law of a State or Territory; or
    (ii) for the payment of government capital or recurrent grants; or
    (iii) for the payment of government bursaries or allowances to its students.

(b) a **"non-government higher education institution"**, being an institution that is established under State or Territory government legislation or is registered by the relevant State or Territory higher education recognition authority and is not listed in section 4 or paragraphs 34(3)(b)-(h) (inclusive) of the *Higher Education Funding Act 1998.*

(c) a **"non-government Registered Training Organisation"**, being a Registered Training Organisation that is not conducted by a Commonwealth, State or Territory government authority.

Secondary Courses

6. (1) For the purposes of the Act, a course specified in Column 1 of Schedule 1 and conducted by an education institution specified for that course in Column 2 of Schedule 1 is a secondary course.

(2) For the purposes of the Act, a course specified in Column 1 of Schedule 2 and conducted by the education institution specified for that course in Column 2 of Schedule 2 is a secondary course.

Tertiary Courses

7. (1) For the purposes of the Act, a course specified in Column 1 of Schedule 3 and conducted by an education institution specified for that course in Column 2 of Schedule 3 is a tertiary course.

(2) For the purposes of the Act, a course specified in Column 1 of Schedule 4 and at the education institution specified for that course in Column 2 of Schedule 4 is a tertiary course.

(3) For the purposes of the Act, no course accredited at Masters or Doctoral level offered by a higher education institution or a non-government higher education institution is a tertiary course unless expressly specified in Schedule 3 or 4.

SCHEDULE 1

SECONDARY COURSES - GENERAL

Column 1 - Course	Column 2 - Education institution
Accredited secondary course	Secondary school TAFE institution Higher education institution Special school
ESL course	Secondary school Special school
Stream 2000 course or equivalent course	Secondary school TAFE institution Non-government Registered Training Organisation Higher education institution Non-government higher education institution Special school
Preparatory course for tertiary education	Higher education institution
A course leading to an accredited secondary course qualification involving accredited secondary and accredited vocational education and training subjects	Secondary school TAFE institution Higher education institution
School-based apprenticeship or traineeship	Secondary school
Any other course of secondary education	Special school

SCHEDULE 2

SECONDARY COURSES - SPECIFIC

Column 1 - Course	Column 2 - Education institution
New South Wales	
Starting Points Course	TAFE institution
Aboriginal General Skills	TAFE institution
Business Studies at Secondary Schools	TAFE institution
Victoria	
Access/Bridging programmes	TAFE institution
Pre-employment Programmes	TAFE institution
Preparatory Transition Programmes	TAFE institution
Foundation Studies	TAFE institution
Queensland	
A Senior Certificate course in which a subject from an accredited TAFE course is offered along with secondary level subjects	Secondary school

SCHEDULE 3

TERTIARY COURSES - GENERAL

Column 1 - Course	**Column 2 - Education institution**
Pre-vocational course that is not a secondary course specified in Schedule 1 or 2	Higher education institution Non-government higher education institution TAFE institution Non-government Registered Training Organisation Secondary school
New Apprenticeships Access programme	TAFE institution Non-government Registered Training Organisation
ESL course	TAFE institution Higher education institution Any other body approved by the relevant State or Territory authority to conduct the course
A vocational education and training program being a structured approach to the development and attainment of competencies for a particular AQF qualification to meet the endorsed components of Training Packages or, where there is no Training Package, a sequence of training consisting of one or more modules from an accredited vocational education and training course	Higher education institution Non-government higher education institution TAFE institution Secondary school Non government Registered Training Organisation

.. continued

SCHEDULE 3

TERTIARY COURSES - GENERAL (continued)

Column 1 - Course	Column 2 - Education institution
A course which is an accredited higher education course or an accredited vocational education and training course under RATE or AQF national guidelines (including a NBCOTP funded course) and is not: • a secondary course specified in Schedule 1 or 2; or • a Masters or Doctoral degree.	Higher education institution Non-government higher education institution TAFE institution Non-government Registered Training Organisation
Associate degree course for which the completion of Year 12 or a higher education course is the normal entry requirement (including a NBCOTP funded course) and which is an accredited higher education course	Higher education institution Non-government higher education institution TAFE institution
Open Learning - a program of assessment-based study provided through the Open Learning Agency, Melbourne	Higher education institution participating in the Open Learning program TAFE institution participating in the Open Learning program
Combined course - consisting of two or more separate accredited vocational education and training courses undertaken concurrently and each of which leads to the award of a credential or statement of attainment	Higher education institution Non-government higher education institution TAFE institution Non-government Registered Training Organisation Secondary school
Combined course - being an accredited higher education course that leads to two separate undergraduate awards (bachelor degree, diploma, advanced diploma or associate diploma under either RATE or AQF national guidelines) at the one institution, and that is classified in the institution's handbook as a combined course	Higher education institution Non-government higher education institution

SCHEDULE 3

TERTIARY COURSES - GENERAL (continued)

Column 1 - Course	Column 2 - Education institution
Combined course - consisting of concurrent study in an accredited higher education course at a higher education institution and an accredited vocational education and training course at a TAFE institution leading to the award of a separate credential at each institution and that is classified in each institution's handbook as a combined course	Higher education institution TAFE institution
Bachelor degree/postgraduate diploma course - being an accredited higher education course in which components of the bachelor degree course and the postgraduate diploma course are undertaken concurrently and the courses are integrated from the beginning of the first or second year of study	Higher education institution Non-government higher education institution
Graduate degree course for which the entry requirement is an undergraduate bachelor degree or diploma or equivalent and which is an accredited higher education course	Higher education institution Non-government higher education institution
Masters qualifying course (including a NBCOTP funded course) and which is an accredited higher education course	Higher education institution Non-government higher education institution
Integrated combined Bachelor/Masters degree course (which must be classified as such in the institution's handbook) excluding that year or years of the combined course in excess of the normal full time minimum duration of the related bachelor degree course	Higher education institution

SCHEDULE 4

TERTIARY COURSES - SPECIFIC

Column 1 - Course	Column 2 - Education institution
Western Australia Tertiary Bridging Course in Science and Technology	Curtin University of Technology
South Australia Human Services Bridging Program	University of South Australia (Whyalla Campus)
Master of Engineering in Information Technology and Telecommunications (excluding Year 5 study) and which is an accredited higher education course	University of South Australia Flinders University of South Australia University of Adelaide (Offered under the auspices of the Australian Information Technology Engineering Centre.)

Submissions

Submissions were received from the following individuals and organisations:

A

ACAud – Australian College of Audiology

ACOSS – Australian Council of Social Service

ACROD Limited – National Industry Association for Disability Services

Action on Smoking and Health (Australia)

Adams B

Adams H

Aged Care Australia

AHISA – Association of Heads of Independent Schools of Australia

Aitchinson Jane

Aircraft Owners and Pilots Association

Allsop L

Ambulance Service of New South Wales

Ambulance Service Victoria

Amm Ron

Anglican Retirement Villages

Anglican Church Diocese of Bathurst

Anglicare Australia

Anti-Cancer Council

Anti-Cancer Council of Victoria

ARPA – The Australasian Religious Press Association

ARPPS – Association of Rehabilitation Providers in the Private Sector

Arthur Andersen – Submission on behalf of South Australian Ambulance Service

Arthur Andersen – Submission on behalf of the Royal Agricultural Society of Western Australia

Association of Australian Medical Research Institutes

Association of Heads of Australian University Colleges & Halls Inc

Association of Independent Schools of WA Inc

Association of Major Community Organisations

Asthma Australia

Australasian Dispensing Opticians Association

Australian Acupuncture and Chinese Medicine Association

Australian Association of Christian Schools

Australian Association of Occupational Therapists

Australian Association of Social Workers

Australian Automobile Association

Australian Baptist World Aid

Australian Cancer Society

Australian Caption Centre

Australian Catholic Bishops Conference

Australian Catholic Health Care Association

Australian Council for Overseas AID

Australian Council of Homoeopathy

Australian Council of Public Sector Retiree Organisation Inc

Australian Council of State School Organisations Inc
Australian Education Union
Australian Fleet Managers Association
Australian Funeral Directors Association
Australian Health Ministers' Advisory Council
Australian Healthcare Association
Australian Local Government Association
Australian Lutheran World Service
Australian Medical Association
Australian Osteopathic Association
Australian Parents Council
Australian Pentecostal Ministers Fellowship
Australian Pharmaceutical Manufacturers Association
Australian Podiatry Council
Australian Psychological Society Ltd
Australian Publishers Association Limited
Australian Red Cross
Autism Association of NSW
Avis Australia

B

Baines B
Baker John
Ballett J
Barnardos Australia
Barone s
Bega Valley Shire HACC & Disability Forum
Belinda Westley
Benes Dr Eva
Benes Dr Jiri
Benes Eva
Birkbeck Julie
Boas Marylyn
Bois Dr Thierry
Boyce Neville
Boystown Family Care
Break O'Day Council
Bria Eugene
Brine Kirsty
Buckby Hon Malcolm MP
Buys Melanie

C

Callanan Patrick
Cancer Council
CARE Australia
Carlie J.
Carter Peter
Caterson Ian
Catholic Social Services
Cattou C.
Centre for Behavioural Research in Cancer
CEO Fundraising Institute – Australia Inc
Cerebral Palsy League of Queensland
Chairman Foodservice Distributors Australasia
Chen Rhonda
Chetccti John
Chiropractors Association of Australia
Church & Charitable Private Hospitals Association
Church Im
City of Campbelltown
Clancy Cardinal Edward
Clement Dr Simon
Cochrane J
Collins Linda
Community Housing Federation of Australia

Consumer's Health Forum of Australia
Convention of Ambulance Authorities
Cooper Ann
Cornall Denise
Cotes David
Coulton Dr B H
Coventry Paul
Cox N
Cruz Teresa

D

D'Souza Nadia
Dabinet A G
Danato P
Davenport Paul
Davies Libby
De Ieso L G
De Jeso R
Deafness Forum of Australia
Dean Karen
Delbridge B L
Demeo Jacinta
Denley M J
Diabetes Australia
Dietitians Association of Australia
Donegan Tony
Doubtfire Terri-Ann
Dremaranis J
Duncan Dr Bruce

E

Education Australia
ELICOS Association Ltd
Elliot Dr Charles
Elston Jennie
Emmanuel College
Ernst & Young – Submission on behalf Sola Optical and OPSM Protector

F

Farrer Cathy
Federal Chamber of Automotive Industries
Federation of Natural & Traditional Therapists Ltd
Fisher Rachael
Foodservice Distributors Australasia
Forest Place (Retirement Villages)
Forum of Education Peak Organisations
Franklin J
Franks M A
Fraser M (the Rt Hon)
Frazer Sharon
Frost Dr Bruce

G

Galinas Dr John
Gaweda Lesley
Gillard Gwyn
Giro Lisa
Gittes Ian
Givewell
Gluck BA
Good Shepherd Youth and Family Service
Gregg, Margot and Paul
Group Training Australia
Group Training Australia (Victoria)
Groves Dr Lois

H

Hall E J
Hancock B
Harris I
Harris Mary
Health and Community Services Ministerial Council

Heart Foundation (Victorian Division)
Henry Kendall Village
Herring P
Heslop Shane
Heyes Amanda
Hill Dr David
Hilliard Caroline
Hobbs Geoffrey
Hooking D.
Hope Street Refuge Inc
Hoskin A
Howards Professional Driving School
Hugo James
Hulbert Tim
Human Society International

I

IDP Education Australia
Independent Education Union of Australia
Ingram Linda
Interchange Bega-Eden Respite Care

J

Jackson Audrey
Jadman Dr R
Janz Stephen
Joldeski Elizabeth

K

Karpirski Veronica
Kelly Dr Michael
Kenny L
Keyworth D.O Mark
Khraim Dr Nahla
Knipe K.
Knox Michelle
Knoz Michael
KPMG – Submission on behalf of the Private Hospitals Association of Victoria

L

LaBarbera M
Leach Peter
Lee Dr Vicky
Lifeline (Central Coast)
Lim Dr Peter
Long David
Long Sharon
Loone Dr E
Lunny Kristine
Lutheran Church of Australia

M

Mathieson Greg
Mayne Nickless Ltd
Maywald D J
McDonald Jasmine
Medibank Private
Medical Industry Association of Australia
Meek David
Merchant B
Merritt Vanessa
Mickerson John
Middleton Ann
Milsonn R
Minister for Education, Children's Services and Training
Mitsubishi Motors Australia Ltd
Moresi Alistair
Morrison Jeffrey
Motor Trades Association of Australia
Munro A J
Murphy Brian

N

National Association of Charitable Recycling Organisations Inc

National Association of Nursing Homes and Private Hospitals

National Catholic Education Commission

National Council of Independent Schools Association

National Food Distributors Association

National Institute of Accountants

National Tertiary Education Union

National Trust

National Shelter

National Youth Coalition for Housing

Newman Amelia

Ngui J

Nicholls Sharon

Nolan Ann

Nolan Jack

Novartis

NRMA Insurance Limited

NSW Council of PsMS

Nutritional Foods Association of Australia

O

O'Connor Laurence

Ogden Vanita

Optical Distributors and Manufacturing Association of Australia Ltd

Optometrists Association Australia

Osteopathic Clinic Bunbury

Osteopathic Health Care

OT Australia

OzGREEN

P

Palamountain Glen

Pang Frederick

Pantos Vasilios

Papagiorge Angela

Parker Janine

Peipers Julie

People with Multiple Sclerosis (WA, Great Lakes, NSW, Tasmania)

Perin Dr Paola

Pettitt J

Pharmacy Guild of Australia

Pharmaceutical Society of Australia

Pharmaceutical Society of Australia (Victoria)

Physical Disability Council of NSW Inc

Pitcher Jon

Polverino Gina

Polverino Glen

Port Adelaide Central Mission Inc

Preston M

PriceWaterhouse Coopers – Submission on behalf of Plega Healthcare

Submission on behalf of Maxi-Cube

Priest N M

Psychotherapy Association of Australia

PwMS

R

Raftery J

Randell J.

Richards Debra

Roberts J

Roberts Veronica

Roche Diagnostics

Rolfe Professor Barry

Rose Judith

Ross Dr Janele

Rostron Beth
Rouch Barbara
Rowan Dr Michael
Royal Life Saving Society Australia

S

Scott Anne
Shaw Allan
Shaw Karen
Shelter NSW
Sichel Michael
Silver Circle
Sinfield Bronwyn
Sleep Apnoea Association
Smyth Lisa
Society of St Vincent de Paul
St John Ambulance Australia
Staveren Dr Kristian van
Stockland Trust Group
Streckfuss Dr Julie
Sturges Kevin
Strybosch Joanna
Stylian George
Surf Life Saving Australia
Surf Life Saving Western Australia
Symonds A

T

Talbat G
Taylor Derek
Taylor Dr Jack
Tehan Philip
The Australian Traditional – Medicine Society Ltd
The Canterbury Road Health Clinic
The Council of Community Clubs of Australia and New Zealand
The Pharmacy Guild of Australia
The Proprietary Medicines Association of Australia Inc
The Psychotherapy Association of Australia
The Royal Australasian College of Physicians
The Smith Family
The Women's College, University of Queensland
Thokmac Research
Tobias GK
Towers Barbara
Towers Mathew
Treloan B
Truswell Professor A
Turnbull Dr Elizabeth
Turner Dr Paul
Turner W A and G D

U

Utten G T
University of Sydney – Human Nutrition Unit
Uniting Community Services Australia

V

Van Staveren Dr Kristian
Verhagen Michelle

W

Wallace Peter
Walsh Andrew
Walton David
Westley B
Whitaker David
Whitaker Kathy
White Andrew
Wicker P
Williams Julia

Wilson Bishop Bruce
Wilson Brett
Wood K.E.

Y

Yandell C A

Z

Zekis Dean