

SUBMISSION BY INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA
Illustration of Competitive Problem Caused by the Proposed GST Amendment

Example 1

A foreign tour operator (FTO) who is GST compliant sells an Australian holiday package to an overseas tourist for \$2,500. A non-GST compliant FTO sells the same tour to a tourist travelling to Australia for a retail price of \$2,500. Both operators acquire the components of the package from hotels etc in Australia for \$2000 plus GST. A comparison of the position of both FTOs follows:

FTO (Non GST Compliant)		FTO (GST Compliant)	
Buy Price	\$2,000.00	Buy Price	\$2,000.00
GST (no ITC)	<u>200.00</u>	GST (ITC available)	<u>(200.00)</u>
Cost	2,200.00	Cost	2,000.00
Profit	300.00	Profit	<u>273.00</u>
			2273.00
		GST	<u>227.00</u>
Selling price	<u>\$2,500.00</u>	Selling price	<u>\$2,500.00</u>

Profit difference is \$27, and represents 1/11 of the non-GST compliant FTO's margin of \$300 which has not been subject to GST.

Example 2

Assume the same facts in example 1, except that Australian hotel rooms to the value of \$500 plus GST are acquired from a room broker in Hong Kong who is non-GST compliant. The remaining tour package components are sourced by both FTOs from local tour operators in Australia for \$1,500 plus GST. A comparison of the position of both FTOs follows:

FTO (Non GST Compliant)		FTO (GST Compliant)	
Room purchase (GST incl - no ITC)	\$550.00	Room purchase	\$550.00
Other components* (*GST incl - no ITC)	<u>1,650.00</u>	Other components* (*after ITC)	<u>1,500.00</u>
Cost	2,200.00	Cost	2,050.00
Profit	300.00	Profit	<u>223.00</u>
			2273.00
		GST	<u>227.00</u>
Selling price	<u>\$2,500.00</u>	Selling price	<u>\$2,500.00</u>

The difference in profit of \$77 is made up of:

- non-GST compliant FTO's margin of \$300 has not been subject to GST (ie 1/11 of \$300) \$27.00
 - inability of GST compliant FTO to claim an input tax credit on the hotels rooms (ie 10% of \$500) \$50.00
- \$77.00