

NARGA - ATTACHMENT 2

**REPORT ON THE GST COMPLIANCE COSTS FOR
INDEPENDENT GROCERS**

*Prepared for the National Association of Retail Grocers of Australia Pty Limited
– April 2001*

TABLE OF CONTENTS

| | |
|---|----|
| <u>INTRODUCTION</u> | 3 |
| <u>EXECUTIVE SUMMARY</u> | 4 |
| <u>BACKGROUND AND PROFILE OF ENTERPRISES SURVEYED</u> | 7 |
| <u>ONGOING GST COMPLIANCE COSTS</u> | 10 |
| <u>START-UP COSTS</u> | 15 |
| <u>CASHFLOW</u> | 17 |
| <u>OTHER ISSUES</u> | 20 |
| <u>CONCLUSIONS AND RECOMMENDATIONS</u> | 22 |
| <u>APPENDIX 1 - COPY OF QUESTIONNAIRE</u> | 24 |
| <u>APPENDIX 2 - ABOUT HALL CHADWICK</u> | 29 |

INTRODUCTION

This report was commissioned by the National Association of Retail Grocers of Australia Pty Ltd (“NARGA”), which represents more than 4000 independent grocery retailers.

NARGA’s membership is comprised of small and independent grocery stores operating under marketing banners including IGA, Foodworks, Dewsons and Rules. These stores typically employ a mixture of full time and part time staff and have an average yearly sales turnover in excess of \$2 million. NARGA members are in competition with the major supermarket chains operated by Coles Myer Limited and Woolworths Limited.

The ultimate objective of this study was to assist NARGA to understand the nature and extent of Goods and Services Tax (“GST”) compliance costs for its members. In particular NARGA sought assistance in understanding: -

- Compliance and set-up costs for GST including hardware, software and man-hours;
- Ongoing costs of compliance with GST for its members;
- The cashflow implications of the Goods and Services Tax; and
- How the cashflow implications of this new tax compared between major chains and those stores it represented.

This report quantifies and provides qualitative comments on compliance costs experienced by independent grocers Australia wide through feedback from a survey of store owners.

EXECUTIVE SUMMARY

This report documents the findings arising from a survey of more than 1000 independent retail grocers throughout Australia. The survey was to gauge the extent and nature of costs attributable to complying with the introduction and ongoing requirements of the Goods and Services Tax. The population surveyed included IGA stores, being the largest independent group of stores in Australia and considered as representative of all independent retail grocers, comprising more than 4000 stores in total. Typically the survey group were owner operated single stores with an annual turnover of up to \$5 million and employing on average between 14 and 40 staff on a full and part time basis.

Except where indicated all compliance costs identified do not include the cost of preparing Business Activity Statements (BAS).

For purposes of this study, we have categorised stores as follows:-

- Small - annual turnover of up to \$5 million;
- Medium - annual turnover between \$5 million and \$20 million; and
- Large - annual turnover over \$20 million.

In general terms, our findings can be summarised as follows:-

- For the **six month** period ending 31 December 2000 the survey identified that ongoing GST compliance costs across different sized grocery retailers were: -

| | % of Annual Turnover |
|------------------------|-----------------------------|
| • Small - \$6,199.81 | 1.25 |
| • Medium - \$15,300.43 | 0.41 |
| • Large - \$27,295.67 | 0.06 |

- For the group surveyed, ongoing GST compliance costs as a percentage of turnover was higher than overseas experience. This may be explained by two factors being the multiple rates of GST in the form of GST free and taxable goods sold by independent grocers and the relatively recent commencement date of this new tax.
- As a percentage of GST collected for the **six month** period after GST commenced, ongoing GST compliance was disproportionately weighted against small and medium enterprises rather than larger ones. This finding is supported by equivalent overseas studies. The survey showed that approximately 45 percent of goods sold were subject to GST.
 - Small - 28.25%
 - Medium - 13.53%
 - Large - 1.25%

In dollar terms average GST collected for the six month period identified equated to approximately \$146,648.

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- As with ongoing GST compliance costs, GST set-up costs incurred to prepare for GST introduction fell disproportionately on small and medium grocers.

% of Annual Turnover

| | |
|------------------------|------|
| • Small - \$18,622.41 | 1.63 |
| • Medium - \$44,704.94 | 0.58 |
| • Large - \$212,908.33 | 0.17 |

In many instances the study found that GST set-up costs for the 1999/2000 financial year significantly eroded or negated operating profits for the small to medium sized stores. Across all store sizes the average set up cost in preparation for GST was \$28,061.93.

- In relation to completing the Business Activity Statement the study found that this function, albeit undertaken quarterly in the majority of cases, contributed additional compliance costs primarily in the form of the cost of labour for the store owner, employees and external advisers. For the six month period ending 31 December 2000, the cost of completing each BAS return in terms of labour hours by hourly rate of personnel involved was calculated on average as:-

- Small Store - \$819.33
- Medium Store - \$805.47
- Large Store - \$186.67

On our assessment the variance between BAS cost for small and medium stores and that of larger stores may be explained, in many cases, by the change from accounting using a manual based system to a computer based one in conjunction with the inability of some industry specific software packages to generate the actual figures required for BAS completion.

Notably, many of those surveyed, despite being eligible, did not indicate they would be adopting the recently announced simplified BAS reporting option.

The study identified that checking invoices for GST and preparation of BAS documentation required the most attention and involved the most cost in terms of ongoing GST compliance. On average 223 supplier invoices per week were received at each store.

- The study found that the majority of respondents (58 percent) expected ongoing GST compliance costs to stay the same whilst 35 percent expected such costs to rise. The latter group attributed an increase to expected Government changes to the GST system This is at odds with international experience where generally such costs fall over time.
- 55 percent of those responding indicated that following the introduction of GST they had to delegate the bookkeeping function to more senior employees or external accountants.

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- In terms of the cashflow benefits arising from GST collected on goods sold, the majority of those responding indicated such extra monies were used to offset business operating expenses, including GST compliance costs. A significant number of respondents queried whether any material cashflow benefit actually arose from GST monies they temporarily held.
 - Based on industry data for a store with an annual turnover of approximately \$2 million, the aggregate annualised cashflow benefit of GST temporarily held at an interest rate of 3.5 percent was calculated as the equivalent of an extra \$226.54 per year or about 0.0113 percent of annual turnover. By contrast the supermarket divisions of Coles Myer Limited and Woolworths Limited are projected as receiving cashflow benefits, which are approximately 0.0117 percent and 0.0126 percent of annual turnover respectively, better than a typical independent store.
 - Regardless of store size, cashflow benefits from GST temporarily held, is determined as being minimal. However, the major retail chains because of their sizeable cashflows are able to achieve greater returns on GST monies held than independent retailers.
 - The majority of independent grocers are ineligible to utilise simplified methods for determining GST liability because their annual turnovers exceed \$2 million, or because they use a scanning system. This is despite many of these enterprises displaying all of the characteristics symptomatic of a small business for whom these simplified methods were developed.
 - The majority of survey respondents had indicated they had purchased or intended to purchase further GST related equipment in the 2000/2001 financial year and therefore would not qualify for immediate tax write off concessions. The average estimated cost of these additional purchases was \$11,510.52

BACKGROUND AND PROFILE OF ENTERPRISES SURVEYED

Established in the early 1960's, NARGA was founded to provide a national voice and representative body for Australia's independent retail grocers. NARGA is active in many areas, including market domination by national chain stores, GST, tax, competition reforms, national health and safety, and environmental issues.

The study group consisted of Independent Retail Grocers who belong to or are affiliated with NARGA members. This group is typically owner operated single stores with turnovers of up to \$5 million. These profiles of stores represent up to 80 percent of all independent stores. These stores are usually operated as a partnership or company. They exist with low margins, and achieve on average 1-2 percent after tax, depending on the locality and efficiency of business operations. These stores operate extremely long hours, requiring considerable dedication and commitment from owners and staff.

Methodology / Limitations

Methodology

A specific survey was sent to more than 1000 NARGA members, including all stores who are members of the Independent Grocers of Australia ("IGA"), as well as other stores in Victoria and Tasmania, (copy of survey is attached as Appendix 1). This group comprising of approximately 25 percent of all store members of NARGA, is representative of NARGA and its membership. The survey was mainly conducted by fax stream with a total of 285 completed surveys received back and over 50 responses validated by face-to-face and telephone interviews. A review of the locality of the IGA stores found that approximately 50 percent of all IGA stores were located in New South Wales, 19 percent of stores in Adelaide and 23 percent in Victoria, with the remainder located in Queensland and Tasmania. Face to face and telephone interviews were conducted in New South Wales, Queensland, Adelaide and Victoria on a proportional basis in line with the dispersion of the study group.

The face-to-face and telephone interviews were conducted to validate the data received from respondents. Apart from some respondents misunderstanding the questions surveyed, the data received by facsimile is considered to be a reasonable reflection of the compliance costs and other GST related matters affecting the organisations surveyed. In many respects, particularly the transitional costs, the data collected would appear to be understated given the anecdotal evidence available. Many respondents had difficulty remembering the time and money spent on staff and transitional matters which required substantial labour resources such as re-ticketing, overtime, and stock takes.

This recollection problem is supported by the fact that many of the transitional costs were not recorded during face-to-face and telephone interviews until further prompting by the surveyor or other members of the business being surveyed. Other costs were simply not recorded as many respondents have yet to receive bills from external accountants and bookkeepers for professional services rendered during the transitional period to the current date.

Given the likelihood that total compliance costs would appear to be understated, the survey results represent, in our view, a conservative position in terms of the compliance costs incurred by independent grocers.

The survey consisted of four parts.

1. **Part A** gathered data on the GST as remitted in their quarterly or monthly statements to the ATO. Information such as to whether the adoption of simplified reporting for GST was used and the percentage of GST on purchases and sales were included in this part.
2. **Part B** sought qualitative data with respect to record keeping methods and impacts on record keeping as a result of the GST.
3. **Part C** was designed to quantify the compliance costs incurred by an enterprise and also the activities that enterprises undertake in complying with the requirements of GST.
4. **Part D** is concerned with further demographic data on independent grocers and sought comments from respondents in terms of ways to reduce compliance costs.

The validity of survey responses collected is dependant on the accuracy and technical expertise of the staff or owners of each organisation surveyed, with stores being asked to nominate a contact person to facilitate follow up to resolve any further questions that may arise. The inclusion of a contact party for follow up was optional in favour of maintaining the anonymity of survey respondents.

Based on face-to-face and telephone contact interviewers validated 50 of the survey responses, we are satisfied with the integrity of data received from survey respondents.

Basis of Model

A survey distributed by fax stream was considered as the best means to gather the necessary information, given the time and resource constraints. It was determined that other methods would either prove too costly, time consuming, or lacking in sufficient detail. Furthermore, it would prove impossibly difficult to gather the information required from secondary sources as no research of this type or magnitude had previously been undertaken with respect to independent retail grocers in Australia.

Rather than select a random sample of independent grocers to conduct the survey, as had occurred in prior similar studies, it was considered that the study group selected would provide a better study group but still reflect the demographics of the industry. A sample size in excess of 1000 was not considered to be too large for the purposes of the survey.

Response Rate

The survey covered independent grocers affiliated with IGA, as well as other retailers in Victoria and Tasmania.

The number of independent grocers that have responded to this survey is 285 - a response rate of 27 percent based on the 1053 IGA population. This is considered a good response rate considering the information sought was provided voluntarily, and required a considerable degree of effort to tabulate the data requested in a short period of time.

COMPLIANCE COSTS

When considering compliance costs it is important to distinguish between start-up or transitional costs and ongoing or regular costs once the GST has settled down. This study has sought to obtain data on both start-up and ongoing expenditure considered directly attributable to GST compliance.

Various commentators have over time sought to define the term compliance costs. However for the purposes of this study we have adopted the more widely accepted meaning of this expression **being costs incurred by taxpayers in meeting the requirements laid on them by tax law and the revenue authorities**. These are costs over and above the actual payment of tax and over and above any costs, which would disappear if the tax was abolished.¹ For businesses these costs include the costs of collecting, remitting and accounting for GST on the products of the business and also the costs of acquiring and updating GST knowledge to enable such compliance to occur.

A further dimension to the expression compliance cost is the distinction between gross compliance cost and nett compliance cost. Retailers incur gross compliance cost before taking into account offsetting benefits (where applicable) such as: -

- Removal of the Wholesale Sales Tax (WST);
- Abolition of State taxes;
- Tax deductibility of compliance costs; and
- Cash flow benefits received under the GST system.

Given ACCC requirements necessitated that reductions in WST be passed on to final consumers, no material benefit is considered to arise for the retailer group in issue here from the removal of the Wholesale Sales Tax. Similarly no material benefit is considered to flow through from the abolition of State taxes such as some stamp duty, NSW bed taxes and other state based levies.

In practice the difference between gross and nett GST compliance cost for retailers appears largely to be restricted to any cash flow benefits that may be derived.

This study sought to identify ongoing and transitional costs such as: -

- Set up costs leading up to the introduction of GST such as computer hardware and software;
- Weekly paid and unpaid time costs associated with GST compliance activities such as checking invoices to take account of the GST included, determining GST classification and adjusting credits for refunds, and preparing the BAS;
- Staff training costs associated with GST awareness;
- External advisor costs connected with GST compliance.

Moreover this study has also sought to gather feedback from respondents as to what was considered an appropriate monetary compensation for time and money spent in the six months after GST commencement in complying with GST obligations.

¹ Sandford, C (1995): Tax Compliance Costs Measured and Policy, Fiscal Publications in association with The Institute for Fiscal Studies, Britain, 1995, See page 1.

ONGOING GST COMPLIANCE COSTS

Table 1, below, details the average ongoing compliance costs across small, medium and large independent grocers for the six month period from 1 July 2000 to 31 December 2000.

Table 1 - Compliance Cost as a % of Total Turnover

| Retailer Category | Annual Turnover | Compliance Cost \$ | Compliance Cost % total Turnover |
|-------------------|-----------------|--------------------|----------------------------------|
| Small (S) | Up to \$5M | 6,199.81 | 1.25 |
| Medium (M) | \$5M to \$20M | 15,300.43 | 0.41 |
| Large (L) | \$20M + | 27,295.67 | 0.06 |

TABLE 1 – HALL CHADWICK, APRIL 2001

Table 1 data is based on actual feedback of individual total turnover of stores, plus actual compliance costs and not averages for the same. These results display some similarities where compared with overseas experience in other value added tax jurisdictions.

The abovementioned figures are the aggregate for each grocer category of the following costs:-

- Paid time of employees, business owners and others in complying with GST requirements; and
- Fees from third parties such as software developer's specialist tax advise.

These figures **do not include costs associated with BAS preparation.**

As a function of GST collected compliance costs for the six month period after the introduction of GST are represented as follows.

Table 2 - Compliance Cost Quarter 3 & Quarter 4 2001 as a % of GST collected

| Retailer Category | Average compliance costs for the Quarter (Q) as a % of GST collected 3-2000 % | Average compliance costs for the Quarter (Q) as a % of GST collected 4-2000 % | Average of six month compliance cost as a % of GST collected |
|-------------------|---|---|--|
| Small (S) | 30.96 | 25.54 | 28.25 |
| Medium (M) | 14.34 | 12.72 | 13.53 |
| Large (L) | 1.34 | 1.17 | 1.25 |

TABLE 2 – HALL CHADWICK, APRIL 2001

Notably the compliance cost as a percentage of GST collected fell in the fourth quarter of 2000 for each group. Based on overseas experience the expectation would be for ongoing GST compliance to reduce over time. However, clearly from Table 2, the burden of GST compliance falls disproportionately on small retailers by contrast with larger enterprises.

This is further evidenced when ongoing compliance costs is mapped against six month taxable turnover (i.e. goods sold which are subject to GST) as evidenced in Table 3.

Table 3 - Ongoing GST compliance costs – 6 months ending 31 December 2000

| Retailer Category | Annual Turnover | Compliance Cost \$ | Compliance Cost % taxable turnover |
|--------------------------|------------------------|---------------------------|---|
| Small (<i>S</i>) | Up to \$5M | 6,199.81 | 7.85 |
| Medium (<i>M</i>) | \$5M to \$20M | 15,300.43 | 4.65 |
| Large (<i>L</i>) | \$20M + | 27,295.67 | 0.34 |

TABLE 3 – HALL CHADWICK, APRIL 2001

The costs expressed in Table 3 are only six monthly figures and on an annualised basis equate to \$12,399.62 (*S*), \$30,600.86 (*M*) and \$54,591.34 (*L*).

Table 4 – GST Compliance Cost for Small Businesses Internationally

| SIZE OF BUSINESS | UK | NEW ZEALAND | CANADA |
|-------------------------------------|-----------------------|-----------------------|-----------------------|
| (Taxable turnover in US\$ 000's pa) | (1986/87) | (1990/91) | (1992) |
| (K =000's) (M = 000,000's) | % of taxable turnover | % of taxable turnover | % of taxable turnover |
| <50K | 1.49 | 2.06 | N/A |
| 50K-100K | 0.70 | 0.91 | 0.39 |
| 100K-200K | 0.50 | 0.67 | 0.36 |
| 200K-500K | 0.44 | 0.47 | 0.15 |
| 500K-1M | 0.34 | 0.28 | 0.09 |
| 1M-10M | 0.07 | 0.04 | 0.06 |

Source: adapted from the Works of Pope (1999b, page 6)², and studies by Clossen (1994 page 1666)³.

The differences between Table 4 and Table 3, might be explained by the fact that unlike, say New Zealand, grocery retailers in Australia are subject to multiple rates of GST in the form of GST free and taxable goods. It is widely accepted that where this occurs compliance costs are higher.⁴ Overwhelming feedback from the survey was that all goods sold should be subject to GST not a multi-rate GST as is presently the case.

By way of summary, Table 5 below breaks down ongoing compliance cost by grocer category for the study group.

² Pope, J. (1999b): The Compliance Costs of the Goods and Services Tax: A Comment on Current Major Issues, Business for Coalition Tax Reform, Australia, April 1999 See pp 2-3.

³ Clossen, S., 'Administrative and Compliance Costs of the VAT: A Review of the Evidence' (1994). See page 1666, Table 9.

⁴ Australian Government (1998) Regulation Impact Statement for the Introduction of a Goods and Services Tax.

Table 5 – Summary of Ongoing GST compliance costs per week excluding BAS cost

| Size Category | Average of Paid Hours | Average of Unpaid Hours | Average of Paid Cost \$ | Average of Unpaid Cost \$ |
|---------------|-----------------------|-------------------------|-------------------------|---------------------------|
| Small | 12.64 | 5.96 | 251.97 | 143.03 |
| Medium | 24.39 | 5.78 | 619.64 | 187.47 |
| Large | 61.50 | 8.33 | 1,049.83 | 166.67 |
| All Stores | 15.63 | 5.90 | 328.82 | 147.10 |

TABLE 5 – HALL CHADWICK, APRIL 2001

In terms of the completion of the Business Activity Statement, the study found that this activity added additional compliance costs in the form of the cost of labour for store owners, employees or external advisers. The majority of those responding completed the BAS return using the short form method derived from accounts and not completing all of the boxes.

Table 6 – BAS completion costs per BAS

| Size Category | Average cost of BAS \$ |
|---------------|------------------------|
| Small (S) | 819.33 |
| Medium (M) | 805.47 |
| Large (L) | 186.67 |
| All Stores | 759.36 |

TABLE 6 – HALL CHADWICK, APRIL 2001

When study respondents were asked about whether they would change their BAS preparation in light of the recently announced simplified BAS reporting requirements the majority (73.91 percent) indicated that despite being eligible they would not change their present method in favour of the simplified option.

The study found that the majority of respondents (58 percent) expected ongoing GST compliance costs to stay the same whilst 35 percent expected such costs to increase. The latter group attributed an increase to expected Government changes to the GST system. 55 percent of those responding indicated that following the introduction of GST they had to delegate the bookkeeping function to more senior employees or to external accountants by a time and cost basis. The study group identified the following areas as being the main issues requiring attention for GST compliance.

Table 7 - % Time/Cost areas for GST Compliance

| | ALL | | SMALL | | MEDIUM | | LARGE | |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | COST % | TIME % | COST % | TIME % | COST % | TIME % | COST % | TIME % |
| GST CLASS | 8 | 6 | 7 | 7 | 8 | 6 | 1 | 1 |
| BAS PREP | 27 | 21 | 33 | 32 | 27 | 21 | 30 | 26 |
| C.CARD | 3 | 3 | 3 | 3 | 3 | 3 | 1 | 1 |
| CHECKING INVOICES | 35 | 34 | 31 | 34 | 35 | 34 | 31 | 35 |
| CALCULATING GST ON SALES | 7 | 6 | 7 | 8 | 7 | 6 | 1 | 1 |
| OTHER | 6 | 6 | 2 | 3 | 6 | 6 | 16 | 16 |

TABLE 7 – HALL CHADWICK, APRIL 2001

Survey feedback indicated that grocer specific software packages, which were widely used by the industry, did not generate the data necessary to prepare the BAS. Consequently many of those responding had to recalculate figures to complete the BAS return.

Respondents were also asked to identify what GST activities they would perform and to what extent they consumed valuable resources in terms of time or money in relation to all the GST compliance activities they undertake. The study has found that approximately 60 percent of time and costs were used up in preparing the BAS and checking invoices for GST credits. Another 25 percent of time and cost was incurred in the other GST compliance activities. On average each store receives approximately 43 supplier invoices per day or 223 invoices per week, each requiring checking for GST considerations.

Anecdotal evidence suggests the high BAS costs were in relation to converting accounting and other data to a form, which enabled determination of GST collected and GST paid in a period.

When asked for an indication of weekly time / labour cost involved in accounting for store operations prior to GST and afterwards; survey respondents provided the following averages.

Table 8 - Weekly time / labour cost involved in accounting for store operations prior to GST and afterwards

| | Time | Cost \$ |
|----------------------------------|----------|------------|
| Prior to the introduction of GST | 20 hours | 479.95 |
| After the introduction of GST | 29 hours | 925.94 |

TABLE 8 – HALL CHADWICK, APRIL 2001

Moreover approximately 65 percent of respondents indicated their record keeping had changed with the introduction of GST.

Extracts of comments received from Survey on this issue:

“Now on computer rather than manual”.

“From manual spreadsheet to computer”.

“New more complications computer program, separate GST calculation”.

“From simple cash book accounting to using computer records”.

“All recording is done daily. Not monthly as before”.

“Changed from cash to accrual and from manual to computer”.

“All invoices, that attract GST are recorded separately”.

“Needed new computers, software and cash registers”.

In making GST determinations survey respondents relied in 78.99 percent of cases on the GST determinations already made by their wholesaler or the manufacturer. Given the liability for GST rests with the vendor at each stage in the distribution chain this almost total reliance by stores on those further up the distribution chain is of concern.

Overseas experience has suggested that the introduction of GST brings with it various positive benefits to business operators in the form of such things as improved record keeping and accounting records. When asked has the introduction of GST brought about any savings or efficiencies in your business; approximately 79 percent of those responding replied in the negative.

START-UP COSTS

Study feedback identified that significant costs were incurred by many independent retail grocers in becoming compliant prior to the commencement of GST. In many cases we were made aware that these costs were the equivalent of or severely eroded nett profit for the enterprise concerned.

Across the study profile GST start-up costs are summarised in Table 9 below.

Table 9 – Average GST Set Up Costs by Size

| Size Category | Average GST Set Up Cost \$ |
|---------------|-------------------------------|
| Small (S) | 18,622.41 |
| Medium (M) | 44,704.94 |
| Large (L) | 212,908.33 |

TABLE 9 – HALL CHADWICK, APRIL 2001

Across all categories average GST set up costs were approximately \$28,061.93. Represented in percentages terms as follows:-

| Nature of Cost | % Cost |
|--|--------|
| Hardware / Software | 71.26 |
| Bookkeeping Fees | 4.60 |
| Specialist Tax Advice | 5.85 |
| Staff Training (direct costs only) | 7.44 |
| Additional staff during implementation | 8.60 |
| Other | 2.25 |

By comparison, publically released statements for Coles Myer and Woolworths provide an insight into equivalent GST start-up costs for those enterprises. Those being:-

- Coles Myer Ltd GST Set up compliance cost \$73.49 million
- Woolworths Ltd GST Set up compliance cost \$40.85 million

For comparison purposes these costs can be represented as a percentage of annual turnover.

Table 10 – Set up Costs as a percentage of annual turnover

| Size Category | Set up \$ | Annual % Turnover |
|---|--------------|----------------------|
| Small Independent Retailer | 18,622.41 | 1.63 |
| Medium Independent Retailer | 44,704.94 | 0.58 |
| Large Independent Retailer | 212,908 | 0.17 |
| Coles Myer Ltd (supermarkets only estimate) | 73,490,000 | 0.57 |
| Woolworths Ltd (supermarkets only estimate) | 40,850,000 | 0.27 |

TABLE 10 - HALL CHADWICK, APRIL 2001

The study identified that the split on what items GST start-up expenses were attributed to was as follows:-

Table 11 - Start-Up Costs Itemised by Size

| Start-Up Cost | Small | | | Medium | | | Large | | |
|--|-----------|------------|-----------|-----------|------------|-----------|----------|------------|-----------|
| | Total \$ | Average \$ | Percent % | Total \$ | Average \$ | Percent % | Total \$ | Average \$ | Percent % |
| Hardware / Software | 2,172,628 | 13,329 | 73 | 1,176,113 | 31,787 | 74 | 459,250 | 76,542 | 36 |
| Bookkeeping Fees | 108,915 | 668 | 4 | 36,700 | 992 | 2 | 100,000 | 16,667 | 8 |
| Specialist Tax Advice | 117,299 | 720 | 4 | 62,000 | 1,676 | 4 | 133,200 | 22,200 | 10 |
| Staff Training | 109,272 | 670 | 4 | 86,166 | 2,329 | 5 | 202,000 | 33,667 | 16 |
| Additional staff during implementation | 242,524 | 1,488 | 8 | 104,954 | 2,837 | 7 | 112,000 | 18,667 | 9 |
| Lost staff time | 198,441 | 1,217 | 7 | 93,790 | 2,535 | 6 | 211,000 | 35,167 | 17 |
| Other | 40,735 | 250 | 1 | 19,700 | 532 | 1 | 60,000 | 10,000 | 5 |

TABLE 11 – HALL CHADWICK, APRIL 2001

CASHFLOW

Survey respondents were asked to provide comments on how GST collected was utilised prior to remittance to the Australian Taxation Office (ATO). The vast majority of such feedback (73 percent) indicated that GST collected was in the main used to offset business operating costs. Table 12 below summaries the feedback received on this issue.

Table 12 – Utilisation of GST collected

| Use to offset operating costs | Deposit in specific GST bank account | Invest in short term money market | Other | No response |
|-------------------------------|--------------------------------------|-----------------------------------|-------|-------------|
| % | % | % | % | % |
| 73.5 | 19.3 | 1.8 | 3.6 | 1.8 |

TABLE 12 – HALL CHADWICK – APRIL, 2001

Frequent written and oral comments were received as to whether there was any real material benefit to temporally held GST monies collected on sales.

In order to make an assessment in this area and for comparison purposes, with the corporate supermarket chains, we have identified the following data relating to stock turnover, creditor and debtor terms for the Industry. This data is represented below, in Table 13.

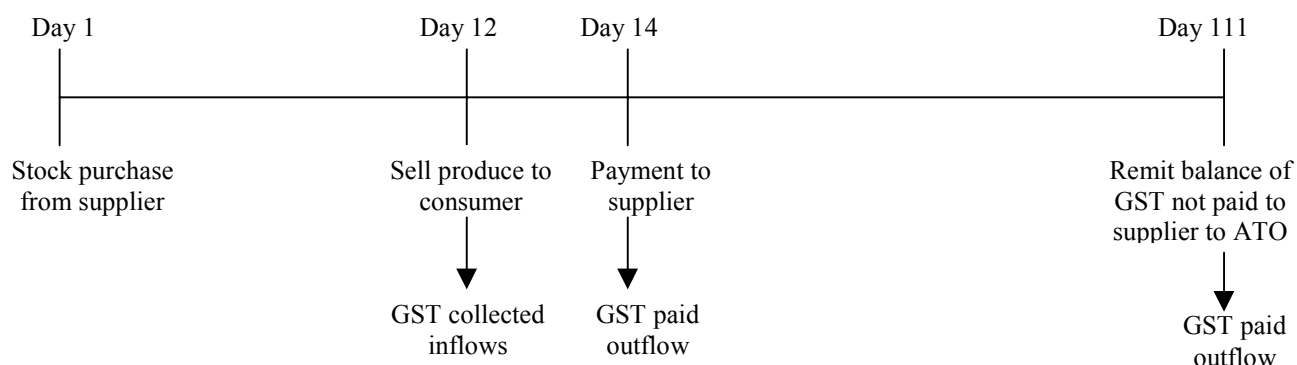
Table 13 – Comparison between Independent Grocers and Major Stores

| | Gross Margin % | Average annual turnover \$ | Stock turnover | Sales Terms | Credit Terms | % Turnover subject to GST |
|---------------------|----------------|----------------------------|----------------|-------------|--------------|---------------------------|
| Independent Grocers | 25 | 2,000,000 | Every 12 days | Immediate | 14 days | 4.50 |
| Coles Myer Limited | 25 | 12,939,300,000 | Every 9 days | Immediate | 30 days | 4.63 |
| Woolworths Limited | 25 | 15,381,800,000 | Every 9 days | Immediate | 30 days | 5.00 |

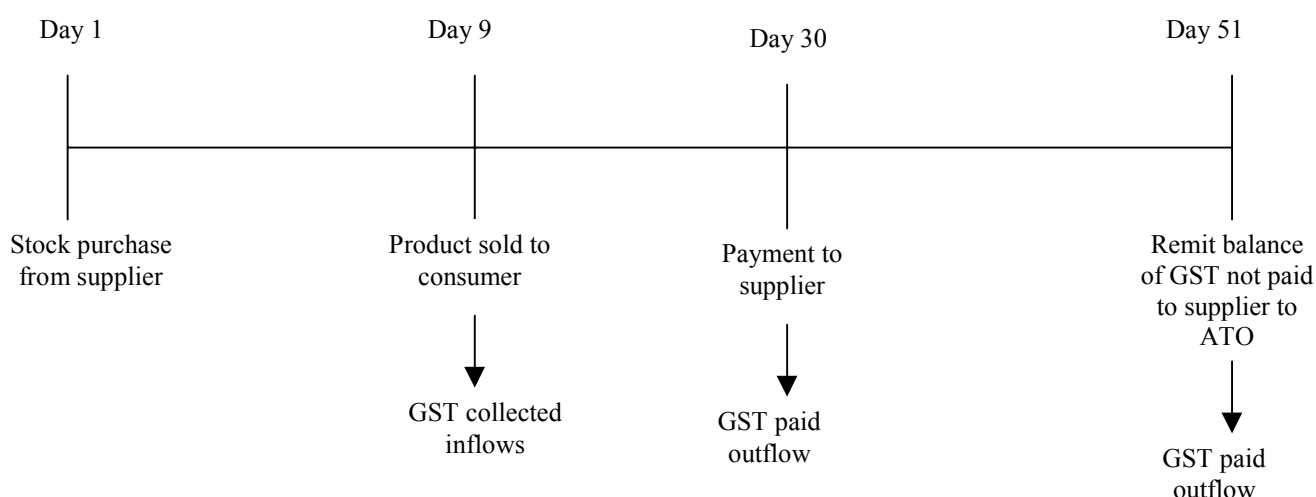
TABLE 13 – HALL CHADWICK – APRIL, 2001

The tabulated industry information detailed above is best expressed in the context of a timeline for a typical grocery transaction, from purchase from product supplier to sale at retail level and those subsequent steps to payment of GST to the ATO.

Independent Grocer



Coles Myer Limited and Woolworths Limited



We have determined from these industry “norms”, annualised average turnover figures and by applying an interest rate of 3.5 percent for the time GST is held, the following relationships and comparisons.

Independent Grocers

- 100 percent of the GST collected on the sale of goods is held for 2 days before 75 percent of that GST is paid back to product suppliers.
- 25 percent of the GST collected on the same transaction is held for a further 97 days before being paid to the ATO.

On an annualised basis this equates to a per annum aggregate cashflow benefit for all taxable goods sold of \$226.54 for the average independent grocer (i.e. average annual turnover of \$2 million).

Table 14 – Yearly Cash Flow Benefits – Independent Grocers

| Retailer Category | Yearly Cash Flow Benefit \$ | % Turnover |
|-------------------|--------------------------------|------------|
| Small (S) | 206.51 | 0.0113 |
| Medium (M) | 861.73 | 0.0113 |
| Large (L) | 20,728.51 | 0.0113 |
| All Stores | 226.54 | 0.0113 |
| Coles Myer Ltd | 1,510,000.00 | 0.0117 |
| Woolworths Ltd | 1,940,000.00 | 0.0126 |

TABLE 14 – HALL CHADWICK, APRIL 2001

Coles Myer Limited (supermarket only)

- 100 percent of the GST collected on the sale of goods is held for 21 days before 75 percent of that GST is paid back to product suppliers.
- 25 percent of the GST collected on the same transaction is held for a further 21 days before being paid to the ATO.

On an annualised basis this equates to a per annum aggregate cashflow benefit for all taxable goods sold of \$1,510,000 for the Coles Myer Limited.

Woolworths Limited (supermarkets only)

- 100 percent of the GST collected on the sale of goods is held for 21 days before 75 percent of that GST is paid back to product suppliers.
- 25 percent of the GST collected on the same transaction is held for a further 21 days before being paid to the ATO.

On an annualised basis this equates to a per annum aggregates cashflow benefit for all taxable goods sold of \$1,940,000 for Woolworths Limited.

On a comparison basis Coles Myer and Woolworths are projected as receiving cashflow benefits, which are approximately 0.0117 percent and 0.0126 percent of annual turnover respectively, better than a typical independent store. Notwithstanding this calculation the model used is based on a best-case analysis whereby all purchases are made at day 1, in a month and timeframes for remittance of GST is aligned with ATO payment cycles. In practice this cycle may vary considerably. Consequently the cash flow benefit from GST monies temporarily held by Independent Grocers and major retail chains is submitted as relatively small but weighted more significantly in favour of the major retail chains.

Major retail chains have inherent sophisticated treasury operations, which can place GST funds on overnight money markets and therefore benefit from higher interest rates than the 3.5 percent interest rate used for this analysis.

OTHER ISSUES

International Experience

Over time a number of studies have been undertaken to determine compliance costs associated with value added taxes in various jurisdictions. The findings from the studies have understandably varied from jurisdiction to jurisdiction.

Notwithstanding these variations a number of common trends have emerged many of which have become evident in this study. In general terms some of these trends can be summarised as follows:-

- Compliance costs consume a significantly greater proportion of the resources of small business than large business;
- Costs associated with complying with value added tax systems are lowest when the tax is applied to a broad base and at a single rate;
- Compliance costs are reduced when the information required to complete returns associated with meeting value added tax reporting obligations can be obtained from existing accounting systems;
- Government can reduce compliance costs by providing educational and other support to value added tax registrants;
- To reduce compliance costs most VAT jurisdictions offer simplified methods of accounting, permitting estimates of liability rather than precise amounts.

Simplified Methods

Australia's GST system provides for the application of various simplified methods for determining GST liability. These methods can be adopted by the likes of independent grocers and supermarkets providing annual turnover levels do not exceed, under most methods, \$2 million, but only where the business does not have "an adequate point of sale system" i.e. a scanning system. The three simplified methods that can be used are:-

- Business norms methods, where a standard percentage is applied to sales and purchases to estimate GST-free sales and purchases (Annual turnover threshold below \$1 million).
- Snapshot method, where a snapshot period is selected as representative of GST-free purchases and sales (for the 2000/2001 year annual turnover threshold below \$2 million).
- Stock purchases method, where a snapshot of purchases is used to estimate the percentage of GST-free purchases and sales.

The majority of survey respondents because their annual turnover levels were in excess of \$2 million or because they do have an adequate point of sale system are unable to utilise these simplified methods. This is despite the fact that the majority of independent grocers run businesses which evidence all of the characteristics of small business yet are precluded from these simplified methods because they are in an Industry of high sales turnover yet low margins.

Compensation

As part of the introduction of a Goods and Services Tax into Australia, a number of personal and other compensatory measures were introduced. In terms of business preparing for GST commencement these measures were primarily:-

- Immediate tax write-off for certain GST related expenditure in 1999/2000;
- Up to \$500M for GST assistance for small and medium enterprises, community organisations and educational bodies.

The survey identified that many of the respondents had purchased GST related hardware, and point of sale and other equipment in the 2000/2001 year which therefore did not qualify for immediate tax write-off. Survey respondents were asked to quantify what they considered was an appropriate amount of compensation for managing the transition to GST. The results of this feedback are provided below in Table 15.

Table 15 – Compensation claims by size

| | Average \$ | Total \$ |
|--------|---------------|--------------|
| All | 17,812.24 | 4,047,139.00 |
| Large | 171,666.67 | 1,030,000.00 |
| Medium | 22,302.10 | 914,386.00 |
| Small | 12,296.80 | 2,102,753.00 |

TABLE 15 HALL CHADWICK APRIL, 2001

CONCLUSIONS AND RECOMMENDATIONS

Overall we have identified from this study a number of conclusions relevant to GST compliance for independent grocers. These are summarised as follows:-

- Ongoing GST compliance costs, for this sector, are relatively higher because grocers are selling a mix of taxable and non-taxable food and groceries. Simplified methods for GST compliance cannot be applied in the majority of cases because annual individual turnovers exceed \$2M and also because the use of a scanning system precludes access to these methods.
- GST compliance costs in preparing for the commencement of GST is similarly significant for the study group particularly as in most cases it was the equivalent of or represented a large proportion of annual net profit for the 1999/2000 financial year.
- Both start-up and ongoing GST compliance costs are weighted disproportionately against small and medium sized independent grocers. This is in line with overseas experience.
- Simplified BAS reporting options were not, in many cases, proposed to be utilised but even if they were this would not overcome the significant time/cost reported in other compliance tasks including checking supplier invoices for GST taxable and GST free goods.
- On an annualised basis the cashflow benefit of GST monies temporarily held was determined for the study group as being negligible when compared with the cashflow benefits of the major retail chains.
- GST compensatory measures introduced by the Federal Government with the introduction of GST offered little or no assistance to the study group and in many cases were not available, as time deadlines had lapsed.

In light of these major conclusions we feel that following recommendations are warranted:-

- International studies have found that Governments can reduce compliance costs by providing educational and other support. For this group we believe that special compensatory measures are warranted. This is because not only are the majority of independent grocers small businesses and therefore the hardest affected by GST compliance cost but also they are required to account for a mix of GST-free and taxable goods. Furthermore many are unable to utilise simplified GST accounting methods because they are in a high turnover low margin industry. Consequently we recommend that submissions for compensation be made to encompass the following:-
 - Direct monetary compensation;
 - Extension of immediate tax write off provisions for GST related equipment purchases;

-
- Allow grocers to utilise the simplified GST accounting methods for retailers by raising the turnover threshold for this sector and removing the provision that denies access to stores operating “an adequate point of sale system”; and
 - Such other forms of compensation as considered appropriate.

APPENDIX 1 - COPY OF QUESTIONNAIRE

PLEASE RETURN BY FAX TO:-

ATTENTION: Mr Mark Reynolds

Hall Chadwick Chartered Accountants

FAX: 07 3233 3424 or 07 3233 3567

**DUE DATE:
FRIDAY 16TH MARCH
2001**

INTRODUCTORY POINTS:

- The content of this report is kept strictly confidential. Nothing you provide will be reported in a manner in which your business could be identified.
- You are one of 1055 businesses around the country being surveyed. To achieve the objectives of this study, it is important that your responses are accurate and meaningful as possible.
- The ultimate objective of this survey is to assist the National Association of Retail Grocers of Australia, NARGA Australia Pty Ltd, to understand the nature and extent of GST compliance costs in Australia.
- The focus of the survey is on those tasks and costs that relate exclusively to the GST. In other words, if the GST did not exist, how much time and money would you save.

A. THIS SECTION ASKS ABOUT YOUR GST REMITTANCES

1. How frequently do you submit your BAS return?
 - Monthly
 - Quarterly
2. In filling out the GST section of your BAS?
 - Do you fill in all the boxes (G1 to G20)?
 - Do you fill in only some boxes (G1, G2 G3, G10, G11)?
3. Given the recent announcements to simplify the BAS reporting requirements for GST, do you intend to change the way you prepare your BAS

Note: This question is not applicable for businesses with a turnover > \$20 million and/or monthly GST lodgements

 - Unaware of the changes
 - No
 - Yes

If yes, do you believe the recent changes to the BAS will decrease the time it takes to complete your BAS?

 - No
 - Yes estimate saving _____ hours
4. Estimate what portion of your purchases and sales were subject to GST (i.e. taxed at 10%)?

| Purchases | Sales |
|-------------------------------------|-------------------------------------|
| <input type="checkbox"/> 100% | <input type="checkbox"/> 100% |
| <input type="checkbox"/> 75% to 99% | <input type="checkbox"/> 75% to 99% |
| <input type="checkbox"/> 50% to 74% | <input type="checkbox"/> 50% to 74% |
| <input type="checkbox"/> 25% to 49% | <input type="checkbox"/> 25% to 49% |
| <input type="checkbox"/> 0% to 24% | <input type="checkbox"/> 0% to 24% |
5. Approximately, what is the total GST you have collected in the first 6 months, up to 31 December 2000 (This is the totals of 1A in your BAS returns)

| | |
|--------------------------|----------|
| 1 July to 30 September | \$ _____ |
| 1 October to 31 December | \$ _____ |
6. What do you do with the GST collected on sales prior to remitting it to the ATO
 - Use to offset operating costs
 - Deposit in specific GST bank account
 - Invest in short term money market
 - Other please specify:

B. THIS SECTION ASKS QUESTIONS ABOUT HOW YOU ORGANISE YOUR ACCOUNTING RECORDS

1. What basis do you use to account for GST?
- Cash (when money is received/paid)
 - Accruals (when invoice is received/issued)
2. How are you currently maintaining your accounting records?
- Manual system
 - Computer system maintained in-house
 - By our external accountants / bookkeepers from source documents
 - Other please specify : _____

- Has your method of record keeping changed as a result of the GST?
- Yes
 - No
- If yes, please specify _____

3. On average, how many invoices would you receive –
- per day _____
- per week _____
4. Since the introduction of the GST, who performs the majority of your bookkeeping? Please tick one box only.
- An employee of our company
 - Owner of the business
 - A family member of the owner (including spouse)
 - An external accountant / bookkeeper
 - Other please specify: _____

5. Who prepares your BAS?
- An employee of our company
 - Owner of the business
 - A family member of the owner (including spouse)
 - An external accountant / bookkeeper
 - Other please specify: _____

- If your BAS is prepared by an external accountant/bookkeeper, do you intend to prepare the BAS in-house in the future?
- Yes
 - No

C. THIS SECTION ASKS ABOUT A NUMBER OF FUNCTIONS THAT RELATE EXCLUSIVELY TO THE GST

1. How do you calculate the amount of GST to charge on your sales?
- Computed automatically by a computer / cash register
 - Computed manually or by calculator
2. Do you consider that your compliance costs will over time -
- Stay the same
 - Increase
 - Decrease

Where do you believe the changes will come about?

3. Since the introduction of the GST what is the **estimated cost** to your business **per week** in relation to day-to-day GST compliance activities? (i.e. checking invoices for GST, determining GST classification, adjusting credits for refunds, etc)

Note : This does not relate to costs incurred in the initial setting up for the GST or preparing the BAS

Please list here the estimated cost, which you incur – that is time, which actually costs you money. (For unpaid time or work see below)

| | Hour(s) | Hourly Rate |
|--------------------------------|---------|-------------|
| Employees | _____ | \$ _____ |
| Owner of business | _____ | \$ _____ |
| Family member of the owner | _____ | \$ _____ |
| External Accountant/bookkeeper | _____ | \$ _____ |

If time is incurred, but no cost is paid for that work (i.e. family members not on payroll, or unpaid overtime worked by owner / staff) please provide an estimate of the time and hourly rate?

| Rate | Hour(s) | Hourly |
|----------------------------|---------|----------|
| Employees | _____ | \$ _____ |
| Owner of business | _____ | \$ _____ |
| Family member of the owner | _____ | \$ _____ |

4. How much time did it take to actually fill in and complete each BAS return up to December 2000?

| Rate | Hour(s) | Hourly |
|-----------------------|---------|----------|
| Bookkeeping Staff | _____ | \$ _____ |
| Owner's Time | _____ | \$ _____ |
| Accountant / Advisers | _____ | \$ _____ |

5. Has the introduction of the GST, required you to delegate your bookkeeping to more senior staff in your business (i.e. more work done by accountant rather than accounts clerk, etc)

- No
 Yes

If yes, please indicate who has taken on this extra responsibility?

- Employees
 Owner of business
 Family member of the owner
 External Accountant / Bookkeeper

6. Has the introduction of the GST brought about any savings or efficiencies in your business (i.e. computerised accounting, better bookkeeping, better credit controls):-

- No
 Yes please specify the savings/efficiencies and if possible provide an estimated amount for the saving

7. How do you determine whether an item you sell is subject to GST or not. Indicate the extent to which you rely on the following to determine the GST treatment?

- | | % Reliance |
|--|------------|
| <input type="checkbox"/> Private ruling request from ATO | _____ |
| <input type="checkbox"/> Public ruling from ATO | _____ |
| <input type="checkbox"/> Accountant / bookkeeper advises | _____ |
| <input type="checkbox"/> Information from industry bodies | _____ |
| <input type="checkbox"/> Wholesaler / Manufacturer advises | _____ |
| <input type="checkbox"/> Self assess | _____ |
| <input type="checkbox"/> Other, please specify: | _____ |

8. Do you have a problem in determining the GST treatment of products which you convert (i.e. salad preparations, cooked foods, sandwiches, prepared meals, etc)

- No
 Yes please specify:

9. Please state approximately what percentage of your purchases and sales (by value) are paid within the following time frames?

| | % Purchases | % Sales |
|----------------------------|-------------|---------|
| Immediately (that day) | _____ | _____ |
| Within 1 week | _____ | _____ |
| Between 1 week and 1 month | _____ | _____ |
| During the second month | _____ | _____ |
| During the third month | _____ | _____ |
| More than 3 months | _____ | _____ |
| | 100% | 100% |

10. Please estimate in the six months ended 31 December 2000 the areas where you incur your GST compliance costs in terms of both time and cost in complying with the GST? (please provide percentages)

| % Time | % Costs |
|--|---------|
| <input type="checkbox"/> GST Classification of products | _____ |
| <input type="checkbox"/> BAS preparation | _____ |
| <input type="checkbox"/> Credit card receipts / payments | _____ |
| <input type="checkbox"/> Checking invoices for GST credits | _____ |
| <input type="checkbox"/> Calculating GST on sales | _____ |
| <input type="checkbox"/> Other(s), please specify | _____ |
| _____ | _____ |
| | 100 % |
| | 100% |

11. Did you incur any costs for purchases, such as equipment, software, audit, accounting advice, staff training, or any other items in order to **become compliant** with the requirements for GST? (these are start up costs – not ongoing compliance amounts)

- No
 Yes

If yes, please state the nature of the cost and approximate amount incurred. Please list them separately:

| Nature of Cost | Estimate Cost |
|--|---------------|
| \$ | |
| Hardware / Software | _____ |
| Bookkeeping Fees | _____ |
| Specialist Tax Advice | _____ |
| Staff Training (direct costs only) | _____ |
| Additional staff during implementation | _____ |
| _____ | _____ |
| _____ | _____ |

12. If you provided staff training, what was the estimated cost to you in lost time they could otherwise have been working?
 \$ _____

13. For the year ended June 2001, have you or do you expect to purchase any hardware / software to handle your business' GST compliance?

- No
 Yes please provide an estimate of the cost:
 \$ _____

14. If you could have claimed from the Government compensation for the time and money spent on accounting for the GST in the last 6-month period, how much would you have claimed as fair compensation?

\$ _____

15. How much time per week do you estimate it took to undertake the accounting tasks associated with your business:-

Prior to the introduction of GST _____ hours

After the introduction of GST _____ hours

What value in dollar terms would you place on your labour costs associated with the weekly accounting functions of your business:-

Prior to the introduction of GST \$ _____

After the introduction of GST \$ _____

16. How often in the six months ended 31 December 2000, have you had to vary the GST treatment of products you sell?

- Never
 Occasionally
 Often
 Always

D. THIS SECTION ASKS GENERAL INFORMATION ABOUT YOUR BUSINESS AND SEEKS OTHER COMMENTS

1. How many stores does your business operate?

2. What is the legal form of your business?
 Sole trader
 Company
 Partnership
 Unit Trust
 Discretionary Trust
 Other • please specify

3. What was the approximate dollar value of your sales in the last accounting year?
\$ _____
- If you do not want to provide this information, please tick one of the categories below as an indication of your annual sales turnover.
- Under \$1 million
 \$1 million to \$5 million
 \$5 million to \$10 million
 \$10 million to \$15 million
 \$15 million to \$20 million
 More than \$20 million
4. What is the number of employees in your business?
_____ full time (> 30 hours per week)
_____ part time/casual
_____ full time equivalents
5. On what date did your last accounting year end?
_____/_____/_____
6. Are there any changes, which you believe the Government, should make to the GST to assist in reducing compliance costs?

7. Is there any other information you would like to tell us about the GST or this survey?

8. **(OPTIONAL)** If you are willing to participate in follow up discussions in respect of the survey, could please provide the name and contact particulars of a person in your business we can contact?

**Thank you for taking the time to complete this survey. Your assistance is greatly appreciated.
Please return this survey by fax to Hall Chadwick. Please refer to the front page for further details.**

APPENDIX 2 - ABOUT HALL CHADWICK

Background to Hall Chadwick

Hall Chadwick is one of the largest and most experienced consulting and accounting groups in Australia operating in most mainland capital cities and many regional centres. Nationally, Hall Chadwick has 45 partners and over 340 staff. Internationally, Hall Chadwick is supported by AGN International - an independent accounting group with more than 300 offices in major centres of Asia, Europe, North and South America, Africa, and New Zealand.

In Queensland, Hall Chadwick has been operating for over 110 years. The firm now comprises 11 partners and about 150 professional and support staff in offices in Brisbane, Cairns, Caboolture, Atherton, and Gold and Sunshine coasts. In addition, Hall Chadwick works closely with about 150 associated accounting firms in various areas state-wide (see Appendix A).

As well as providing consulting services of taxation, audit, insolvency, etc. we also offer a range of services also extend to advice on issues such as: -

- Organisational studies and Management reviews
- Mergers, Takeovers and Acquisitions
- Business Planning
- Performance Measurement Procedures
- Accounting and Reporting Systems and Manuals
- Corporate Strategy
- Asia Pacific trade and investment

GST Experience - Internationally

Hall Chadwick's membership of AGN International provides us with access to the experience and resources of other tax professionals fluent in value added taxes in other jurisdictions. Increasingly, we have successfully accessed these resources in New Zealand, the United Kingdom, and Canada.

Our Recent Experience

- Conducted a GST impact survey for a number of independent schools throughout Australia.
- Practical involvement in advising clients on matters associated with the impact of United Kingdom Value Added Tax and New Zealand GST on their affairs.
- Significant exposure and analysis of the Hewson GST proposal.
- Involvement in submissions to the Senate Standing Committee on the implications of GST on, among other things, the retail sale of books - outcome - led to the bounty assistance.

-
- Preparation and presentation of submissions to the Australian Democrats on the treatment of whole roasted chickens on behalf of one of Australia's largest fast food retail chains - outcome –successful.
 - Completed numerous GST impact studies on behalf of a diverse range of clientele including job service providers, licensed clubs, tourist accommodation houses, private schools, not-for-profit charities, capital raising projects.
 - Conducted economic modelling and reviews on PRISMOD forecasts on the effects on various industry sectors of tax reform and GST impacts.
 - Assisting a number of organisations in managing their GST affairs including extensive GST project management.
 - Prepared and presented extensive training materials on mechanics of GST to numerous peak industry bodies.
 - Development of an innovative GST Web solution for delivering GST information and support to a diverse and often geographically remote audience.
 - Assisted an organisation in employee bargaining negotiations where tax reform was part of submissions by the employee group.
 - Providing extensive written advice to clients across numerous industry sectors on GST related issues.
 - Prepared newspaper articles on various GST subjects for subsequent inclusion in various national and regional newspapers.
 - Assisting a leading not-for-profit charitable organisation in liaison with “pilot” GST discussions with the Australian Taxation Office on the impact of GST on the sector.
 - Appointed to the panel of consultants pre-approved by the Queensland Treasury to provide GST consulting services to Queensland government departments and agencies.
 - Assisting a number of peak industry bodies in making submissions for financial assistance available from the \$500M GST start-up fund.
 - Involvement in three successful National GST Start-Up projects on behalf of major peak industry bodies. Our involvement includes GST workshops, manuals, training materials and “hotline” question and answer services.
 - Submissions with respect to GST policy issues and proposed alteration to the law.
 - Production of numerous GST Brochures for the public on the impact of GST on various industries.
 - Developed Prudential GST Audit and broader tax reform review methodologies for application to various industries.
 - Developed “in-house” client GST checklists.
 - Regular media comments on the impact of GST.
 - Regular written submissions on draft GST Rulings, determinations and other ATO documents on behalf of various industries.
 - Regular papers presented to various training institutions such as TEN and the Queensland Law Society.