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28th May, 2002

Mr. Robert Gottiebsen

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Dear Bob,

Just some quick thoughts :

Regarding the announced increase in the cost of prescriptions under the Pharmaceutical Benefits Scheme and the front page story in last weekend's Australian it is important to know the background to the GST compliance costs of the pharmacies.

In April 2000 (just over two months before the introduction of the GST) the senior representatives of the pharmacists met in Canberra with Peter Costello.

They pleaded with Peter to exempt them from paying GST on all of the drugs which they sell free of GST. They explained that the compliance costs they would incur if they had to pay the GST to their wholesalers and then claim it all back from the ATO would work out at 50cents to 60cents per PBS prescription.

They were told that there was no way Treasury would change the rules.

The pharmacists have continued to lobby for relief from the GST and, just before the recent election were promised a 15-cent per PBS prescription "to cover the cost of complying with government regulations". In typical "Yes Minister" style no mention was made of it being related to the GST. It is quite possible (indeed most likely) that Peter Costello was not told the reason for the small change.

With almost 150-million PBS prescriptions dispensed last year this 15cents will cost \$22.5million p.a.. The pharmacists would much rather be exempted from having to pay the GST on all of their drugs.

If we use the Treasurer's four-year budget system it gives us a cost over four years of \$90 million, and the number of prescriptions is increasing.

Whilst \$22.5 million sounds a lot, it is only an average of \$4500 for each of the 5000 pharmacies throughout Australia.(There were 4925 registered pharmacies on the 22nd May 2002 so 5000 is a pretty accurate figure to use).

There are many ways the cost of the PBS scheme can be reduced and the GST compliance is so easily remedied – but it would take either Peter Costello to admit a mistake, or for John Howard to ignore Peter and make the change (as he has done in the past when the mess of the original BAS forms developed).

The extra hundreds of millions of dollars being thrown to the ATO is to fund a desperate attempt to prevent the ATO from collapsing under the gigantic backlog of outstanding BAS Returns as well as severe problems accounting for the numerous taxes which are covered by the BAS forms.

I spoke with Tony Greco at the Taxpayers Association (phone 1300657572) in Melbourne on May 16 (about a blunder by the ATO which affects one of my clients) and he told me that he has received embargoed statistical information from the ATO which highlights the magnitude of the problem with unlodged BAS Returns.

Because of the embargo he said that he couldn't reveal the figures. I would suggest that you ask the ATO for their figures on how many BAS Returns are in arrears for each reporting period. (Last Sunday on the Channel Nine "Sunday" program Michael Carmody said that there were 98000 taxpayers with two or more BAS forms in arrears but that is the tip of the iceberg – as the March quarterly returns are now a month late ask him how many of them are in arrears).

If you are interested I can explain:

Why the Black (Cash) Economy is booming greater than ever.

How the integrity of the Tax System has been destroyed particularly in relation to the building industry, leaving the ATO exposed to massive tax avoidance and fraud.

I am flat out trying to cope with the impossible deadline of May 31 to lodge all outstanding BAS returns and will be away for the first two weeks of June but just leave a message if you need any further information.

Regards,