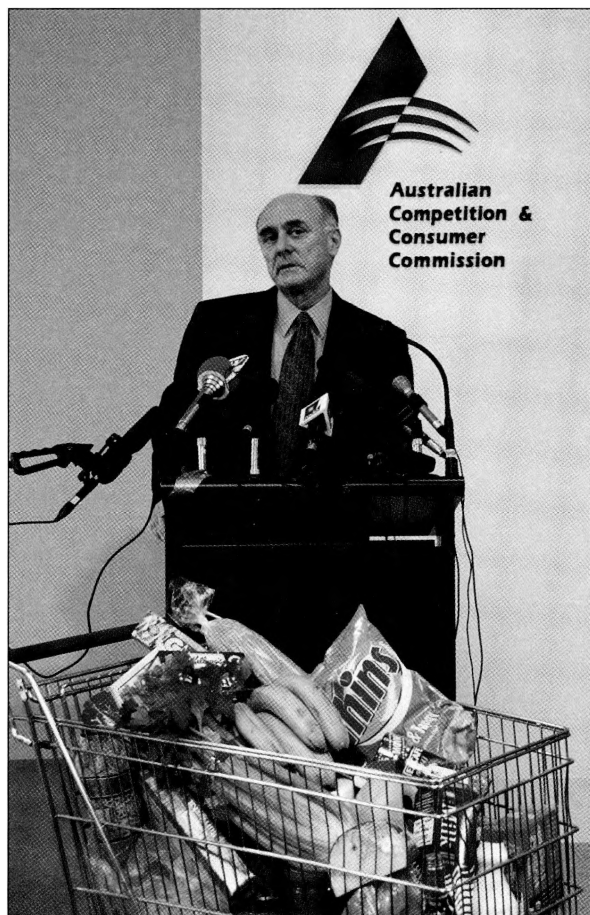

GST

Australia's Everyday Shopping Guide with the GST

The Commission released *Australia's Everyday Shopping Guide with the GST* on 23 May 2000.

For the first time since the New Tax System legislation was passed in 1999, consumers will have information from an independent body on the likely effects of the tax changes on prices. Without this information consumers would find it difficult to work out how particular products will be affected by the tax changes.



The Commission's estimates give consumers some basic information to help them assess whether price changes from 1 July 2000 are in the right direction. Consumers will be better informed to question retailers about price changes and make purchasing decisions from 1 July.

Will all prices change in line with the Commission's estimates on 1 July 2000?

Prices will not necessarily change by the percentage range provided in the ACCC's shopping guide on 1 July. This is because some of the cost savings take time to work through products' supply chains. Other factors will also affect price changes during this period, including supply and demand conditions, competition, and suppliers' costs.

However, the benefit of WST being removed from consumer products on 1 July should be passed on immediately. For example the prices of televisions, stereos and cameras should fall on 1 July.

Are businesses required to change their prices in line with these figures?

The Commission's estimates are NOT proscriptive demands on business, big or small. They are a guide only to the expected changes, on average, in retail prices for the particular products.

Individual businesses are not required to change their prices exactly by the change estimates. Rather they are required to increase prices by no more than the dollar rise in its costs, where the New Tax System raises costs; and reduce costs at least by the dollar amount where its costs fall due to the New Tax System. Each business should make its own assessment of how it is affected by the New Tax System. Individual businesses have different cost structures and face different market conditions which will influence the eventual price outcomes.

What if a price change is outside the expected range?

The Commission's price change estimates are one indicator to possible further investigations for price exploitation. Where price changes are on the high side of the Commission estimates, the Commission is more likely to investigate further. Where price changes are within the estimate range, the Commission is less likely to investigate further, but investigation is not ruled out.

A business is not necessarily breaking the law if its price changes differ from the Commission estimates. The estimates are based on average industry conditions and the circumstances of a particular business may differ from the average.

If a price change is outside the expected range should a consumer report it to the Commission?

Consumers should shop around for the lowest prices available.

If a consumer is unhappy about a price change they should ask the retailer about that change. If there is not a satisfactory explanation, and prices before the tax changes are known, consumers can call the ACCC GST Price Line and inform the Commission.

The Commission will add such reports to its own price monitoring database and on the basis of its assessment of the data will investigate those price changes that may constitute price exploitation.

Retailer X sells a product for more than Retailer Y after 1 July 2000 — does this mean Retailer X has not adjusted its price properly?

No. Businesses sell similar goods for different prices. Whether the adjustment by X is 'proper' depends on the price change and whether X's net dollar margin increases with the change to the new price. No conclusions can be drawn about price exploitation from a simple comparison of prices at different outlets.

Won't businesses just reprice their products to the top end of the range?

The pressures of competition will operate to give a range of actual price change outcomes. Price levels for the same or similar products currently vary across outlets reflecting competition, differing retail mark-ups and cost structures and cost levels. These fundamental features of markets are not altered by changes to indirect taxation.

Who calculated the expected price changes? How?

The Commission drew on a number of information sources in formulating its estimates. These included:

- the Australian Taxation Office on the current application of WST to the products and on the proposed treatment of the products under the GST;
- information on retail markups from
 - the Australian Bureau of Statistics (publicly available data),
 - the Australian Retailers' Association in relation to many of the goods in the list,
 - independent research on small business margins from the University of New England's Financial Management Research Centre;
- individual public and private enterprises on the industry-specific impacts of The New Tax System;
- State price regulation bodies; and
- econometric modelling of the effects of The New Tax System by an independent economic consultancy firm Econtech Pty Ltd.

Small business pricing kit

On 29 May 2000 the Commission launched its Small business pricing kit, which contains a small business compliance guide, a cost savings estimator and a retail price adjustor. These are tools designed to help small business avoid price exploitation during the transition to the New Tax System.

- The **Small Business Compliance Guide** explains in plain English what a business must do to comply with the Commission price exploitation guidelines. It provides many practical examples.
- The **Cost Savings Estimator** allows small business with an annual gross revenue of under \$10 million to enter information from their profit and loss statement and receive an estimate of the likely cost savings from the New Tax System.
- The New Tax System will cut business costs from July 2000 by abolishing Wholesale Sales Tax and other indirect taxes, as well as reducing excise on petrol and diesel. Businesses are required to pass these savings on in full to consumers.
- The **Retail Price Adjustor** assists small retailers to adjust their retail prices taking into account cost savings in overheads, the removal of wholesale sales tax and adding a 10 per cent GST. It also calculates the amount of WST in stock on hand.

These are provided as an aid for small business — it is not compulsory for them to use it.

How will small business operators know if their suppliers are passing on savings?

When indirect taxes are abolished it will mean savings to all businesses, including suppliers such as manufacturers, distributors and resellers. Businesses that are registered for GST will be able to claim input tax credits for the GST paid on all creditable acquisitions. This covers most business inputs, not just trading stock or things used up to produce taxable supplies.

The cost savings estimator will allow small business to estimate the likely savings for a range of typical business overhead costs.

In real terms most costs to a business will fall because they will be able to claim any GST paid in connection with those supplies. Because prices should not rise by more than 10 per cent (including the GST), any increase of less than this amount when compared with a pre-GST price will mean an effective reduction in costs to the business. For example, a 7.8 per cent increase with GST means a 2 per cent decrease without the GST. Consequently, as a result of the New Tax System changes, the real cost of doing business will fall.

Can a business just use the figures from the savings estimator and price adjustor?

The estimator is just that — an estimator. Businesses should wherever possible use actual savings when calculating their prices. The Commission understands however that not all suppliers have determined their savings. Rather than leave small businesses to work out their savings at the last minute, the Commission arranged for this estimator to be developed so that businesses can plan their prices and take into account expected cost savings under the New Tax System. This may assist particularly where the prices set for 1 July 2000 are likely to apply for a substantial period.

If businesses use the adjustor and estimator will they be safe from action by the Commission?

The Estimator and Adjustor are provided by the Commission as an aid to small business and its use is not compulsory. Where a business can show it has taken all reasonable efforts to identify cost savings — that is, has made the effort to contact its suppliers to find out the level of savings — and is still unable to work out what those savings might be, using the estimator will be the next best alternative. Using the estimator does not absolve the business from making any necessary adjustments as soon as it becomes aware that the actual savings are greater than estimated. Nevertheless, reasonable use of the estimator will be taken into account in any investigation by the Commission.

BHP and Australia Post sign GST public compliance commitment

BHP has agreed to a public compliance commitment which details the company's intent to adhere to the price exploitation provisions of the Trade Practices Act and the guidelines issued by the Commission.

BHP is committed to passing on the cost savings from the introduction of the New Tax System to its customers. It is also committed to not increasing its net dollar margins and to not increasing its prices by more than 10 per cent as a result of the New Tax System changes.

This is an important confirmation to the community that cost savings will be passed on right at the start of the supply chain. Products such as steel and wire used in construction, manufacturing and agriculture will be cheaper for BHP's business customers.

BHP will obtain some savings in overheads and fuel costs. In relation to its upstream producer activities, cost reductions due to wholesale sales tax and other indirect taxes will be small.

Many businesses are saying suppliers are not indicating cost savings being passed on. BHP has committed to passing on cost savings from July 1 and the Commission welcomes BHP's commitment to do so.

Through a public compliance commitment initiative, Australian Post has also agreed to pass on the benefits of the New Tax System changes to Australian consumers and businesses. Savings to customers will be around \$92 million in the first year of the New Tax System.

The price of a standard 45c letter will not rise despite Australia Post paying the GST. The cost of such a stamp to business will actually fall by more than 4c. This results from the New Tax System input tax credit system. Under the input tax credit system, businesses paying GST get a credit for the GST, which has already been paid on inputs. Stamps are just one example. When

they buy a stamp for 45c they get more than 4c back because the price includes 10 per cent GST.

Australia Post has indicated that the price rise of a typical 'basket' of services for a family may be as low as 1.8 per cent.

The Commission is continuing to finalise public compliance commitments with many of Australia's largest companies including banks, petrol companies and major retailers and manufacturers.

Public compliance commitments are placed on the Commission's public register.