

AUSTRALIAN COUNCIL of WOOL EXPORTERS & PROCESSORS INC



Victorian Wool Centre
691 Geelong Road
Brooklyn Vic 3025
Tel: 03 9318 0077
Fax: 03 9318 0877

Email: acwep@woolindustries.org
Web: www.woolindustries.org
ABN: 59 831 182 459
Reg. No.: A0048500L

18 October 2008

ACWEP-08-112

Dr Ken Henry AC

Chairman

Australian's Future Tax System

AFTS Secretariat

The Treasury Langton Crescent PARKES ACT 2600 By E-mail: AFTSubmissions@treasury.gov.au

Dear Dr Henry,

GST Issues for Exporters - Submission to Australia's Future Taxation System 2008

Please find following a submission to the review of Australia's Future Taxation System from the Australian Council of Wool Exporters & Processors. It relates specifically to the impositions which GST impose on exporters who whose principal costs lie in the cost of the product to purchase. Our reference will be to wool, but it applies equally to other industries such as the live animal export trade.

Members of the Australian Council of Wool Exporters and Processors are responsible for the purchase of Australian wool and its export to overseas countries. Around 98% of all Australian wool is exported, mostly in the greasy form (89% in 2007/08) after sale at auction or by private negotiation.

While GST is designed to stimulate exports, those who purchase goods for export, are in fact placed in a negative cash-flow situation with regard to GST.

This differs from businesses that purchase goods or services for resale in Australia. Such businesses operate in a positive cash-flow environment with regard to GST (provided that they are making a profit on their sales).

The difference arises because exporters, when preparing their Business Activity Statements, are not holding any compensating GST receipts from product (wool) sold for export to offset the negative impact of waiting for the refund of GST paid on wool purchased from wool growers or other agents.

This is best demonstrated using the ABS export data for 2007/08, when export wool sales were worth approximately \$2.5 billion. The following table highlights the impact on cash flow and the disadvantageous position when compared with domestic sales of similar value. If there was a profit of 10%, the cost of the wool at auction would be in the order of \$2.250 billion in total.

	If Purchased for Export Sale	If Purchased for Local Sale
Value of Purchases	\$2,250 million	\$2,250 million
Resale Value (Assume 10% Profit)	\$2,500 million	\$2,500 million
GST Due on Purchases (\$2.25 billion)	\$225 million	\$225 million
GST Collected from Sales (\$2.5 billion)	zero	\$250 million
Impact on Cash Flow	-\$225 million	+\$25 million

Timing issues may alter the actual amounts, but there will always be a difference.

Apart from the need to raise the additional \$225 million, there is also the cost of financing these funds. Assuming that wool is purchased evenly throughout each month and Business Activity Statements are lodged on the first day of the following month, there is an average period of 3 to 4 weeks (say 3.5) for which finance has to be covered.

If the cost of financing is 8.0%, the additional cash cost imposed on Australian wool exporters is:

$\$225 \text{ million (GST)} * 8.0\% \text{ (Interest)} \times 3.5 / 52$ (the additional funds carried for 3½ weeks)

= \$1.2 million. Once again timing may alter the quantum of the numbers.

This does not include other costs associated with managing the additional credit.

Advice from exporters is that this may amount to \$30,000 per annum, or more, for a medium sized exporter. A significant cost in the wool industry.

For export industries such the wool industry where some 89% of wool is bought and exported without additional processing, the major input for companies is the cost of purchasing the wool, which is inflated by GST. By comparison, other inputs subject to GST, e.g. rent, communications, office materials and supplies, travel and transport of wool from store to dockside are relatively minor. This is more extreme than in industries where product is purchased for value adding before export or for mining where there is no cash cost of the product to be exported.

While I have described this as a cost to exporters, it is of course a cost to the whole wool industry, as wool buyers need to account for all of their costs in determining how much they can bid in the auction room.

The issue was further highlighted when the New Zealand Merino Company commenced offering wool stored in New Zealand for sale in Melbourne four years ago. The wool is offered for sale without GST from either country, provided that the wool is exported from New Zealand.

Other Industries

Some other export industries face similar issues. The livestock export industry is another billion dollars plus industry which faces similar issues. Like wool exporters, their greatest cost is the purchase of livestock and hence the cost of financing GST is an additional burden for them also.

What Can Be Done?

Ideally for wool exporters, there would be no GST on wool sales. However, if it is accepted that the principal of GST is in place (as we do), there are aspects of its implementation which could be amended for exporting industries that are disadvantaged by the present rules. Immediate thoughts which come to mind revolve around:

- * shortening the frequency of submitting Business Activity Statements for wool purchases; and/or
- * shortening the period for turning around repayments from the ATO.

Both should be feasible in an aspect of business which makes so much use of electronic data transfer.

On the above calculations, there is a saving of approximately \$345,000 for each week saved in the process

It would be of great benefit to the wool industry (and to others) if the GST procedures could be reviewed along the above and/or other lines to minimise the impact of this unintended burden on exporters.

If you or your staff have any queries, we will be pleased to respond.

This Council and some of our Members have made submissions to Ministers and Members of the previous Government, all to no avail. After discussing it with a former Finance Minister's Chief of Staff, we had the distinct feeling that it was all "too hard". It shouldn't be.

Yours sincerely,



Peter Morgan
Executive Director

cc Michael Avery
