



GST Start-Up
Assistance Office



Re-Pricing



*A summary guide for
small & medium sized enterprises*

THE NEW

*A summary guide for
small & medium sized enterprises*

TAX SYSTEM

*A summary guide for
small & medium sized enterprises*



The Institute of
Chartered Accountants
in Australia



Important information concerning this material – please read

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The material is designed to provide general information on Re-pricing and The New Tax System.

Before you rely on this material for any important matter, you should:

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The impact of GST on your prices

THIS BOOKLET IS DESIGNED TO PROVIDE A BASIC GUIDE ON HOW TO PREPARE AND CHANGE YOUR PRICES FOR THE GST.

For most businesses, the GST will have an impact on your prices. In some cases it will result in a price increase in others a decrease. There is no single answer that suits every situation so that is why it is important to review your pricing as soon as possible before 1 July 2000.

Prices will change because of the removal of a range of indirect taxes such as wholesale sales tax and because of the introduction of the GST. As a result, many of your business inputs may go down in price and will change the price you offer your customers.

If you are registered for GST, you are required to account for the GST on all taxable supplies. This represents 1/11th of the sale price. If you make a mistake in calculating the GST on a taxable supply you will still need to remit the correct amount to the Australian Taxation Office. So you need to make sure you get your pricing right.

Remember not all goods and services being sold are subject to GST. GST is only remitted on taxable supplies of goods and services.

Ensuring consumers receive the full benefit of price changes

Because the GST is one of the central features of The New Tax System, the Government expects consumers to receive the full benefit of the reduction in indirect taxes and are not exploited by businesses that attempt to recover more than the tax changes warrant.

Built into the legislation is a requirement that businesses do not engage in price exploitation as a result of the introduction of the GST.

The Australian Competition and Consumer Commission (ACCC) is responsible for administering the law that prohibits price exploitation.

During the transition phase (until 1 July 2002) the ACCC will monitor price movements and take any necessary action to ensure that the full benefits of the tax changes flow through to consumers.

In the event that a breach occurs the ACCC can issue a Notice to the business. Such a Notice will be prima facie evidence of a breach of the *Trade Practices Act*. For breaches of the *Act* the court can impose penalties of up to \$500,000 for individuals and \$10 million for corporations. As a result, it is advisable that you document your GST re-pricing process.

Price and your business

IT IS LIKELY THAT YOUR CUSTOMERS WILL BE VERY INTERESTED IN YOUR POST 1 JULY PRICES.

If you have business clients, they will want to know your price changes before 1 July to see how these changes impact on their costs.

Buying patterns as we approach 1 July will be influenced by customer perceptions of what changes may occur in your prices. It will be important to provide your customers with appropriate information.

Before 1 July, businesses need to assess what needs to be done regarding any price changes.

The two primary issues you should be thinking about are:

- ▶ changes to your business cost structure as a result of The New Tax System; and
- ▶ what steps you need to take to re-price your goods and services.

Being GST ready is about working through the commercial and legal issues that affect your business.

Changes to your business cost structure

Your business cost structure is likely to change as a result of The New Tax System.

Therefore it is important to identify where these changes occur so that you can accurately set your prices and pass on any savings to your customers. These changes may not be a one off event and it is likely that there will be a flow through effect on prices over the next six to twelve month period.

As savings are identified or realised, they will cascade through the system.

The tax changes are likely to impact on your business cost structure (your operating and compliance costs).

As a result, you may identify input cost savings factors such as:

- ▶ the elimination of wholesale sales tax, where this was previously directly paid;
- ▶ reduced suppliers' prices due to the removal of indirect taxes; and
- ▶ lower operating costs due to reduction in expenses such as fuel, postage, local call charges & domestic air travel.

Generally, you may recoup any net additional compliance costs you reasonably incur as a result of The New Tax System changes. These costs should be allocated to specific

goods and services consistent with current business cost allocation procedures.

You should ensure that administration costs are offset by benefits to business arising from:

- ▶ savings in not having to deal with the existing tax system;
- ▶ additional assistance provided by the Government including, where appropriate, immediate write off of new plant and equipment for taxation purposes; and
- ▶ cash-flow benefits obtained by businesses from monies collected in advance of payment of GST liability.

The introduction of The New Tax System provides the opportunity for many businesses to adopt new and improved accounting, operational and management systems. However, these costs should be treated as general business costs, rather than New Tax System administration costs.

It is important that you keep a record of the changes and how these changes have flowed through into your pricing.

A practical way to review your business cost structure

A SIMPLE WAY TO REVIEW AND ADJUST YOUR BUSINESS COST STRUCTURE IS BY UNDERTAKING THE FOLLOWING STEPS:

Step 1

Identify all of your expense items (operating and compliance costs). A good way to do this is to refer to your Profit and Loss Statement.

Step 2

Identify your current actual costs for these expense items.

Step 3

Identify the expected change in cost of these expense items because of the tax changes including GST.

To help calculate your adjusted cost of these expense items you can use the **small business cost change estimator** which is available on the following websites:

▶ www.gststartup.gov.au ▶ <http://gst.accc.gov.au>

Example: Reviewing your business cost structure

EXPENSE ITEM	Current Cost (Pre GST)	Expected cost change	Identify Post GST Cost
Accounting fees		▼	
Advertising		▼	
Bank Service Charges		▲	
Consultancy fees		▼	
Freight & Cartage		▼	
Hire of Plant & Equipment		▼	
Lease Expenses		▼	
Light & Power		▼	
Motor Vehicle		▼	
Postage		▼	
Printing & Stationery		▼	
Rent – Commercial		▼	
Repairs & Maintenance		▼	
Security Costs		▼	
Staff Training		▼	
Subscriptions		▼	
Superannuation		-	
Telephone		▼	
Airfares		▼	
TOTAL COSTS			

NOTE:

- ▶ The likely cost movement directions were provided by the ACCC based on the following assumptions:
 - businesses which currently pay wholesale sales tax (WST), will pay goods and services tax (GST) after 1 July 2000 and subsequently, will be able to claim input tax credits; and
 - the cost change directions relate to the effects of The New Tax System only.
- ▶ Only the direction of expected average cost changes is shown. The magnitude of these changes will ultimately depend upon each individual business's particular circumstances.
- ▶ The cost change directions reflect expected movements within the first 6 month period following 1 July 2000.

The pricing process

TO RE-PRICE YOUR GOODS AND SERVICES, YOU NEED TO BE AWARE OF AND COMPLY WITH THE ACCC GUIDELINES AS THEY APPLY TO THE NEW TAX SYSTEM. THESE GUIDELINES REQUIRE THAT:

- ▶ Businesses should reduce their prices to pass on the full effect of any net tax reductions;
- ▶ Any increase in price based on the GST should include a full offset for indirect tax reductions and other New Tax System related benefits (such as the diesel fuel rebates and grants);
- ▶ No markup should be applied to the GST component of a price;
- ▶ Prices should reflect only actual, not anticipated, tax increases;
- ▶ Businesses should not take the opportunity to increase the difference between costs and prices in dollar terms (the net dollar margin rule); and
- ▶ In any event, no price should increase by more than 10% as a result of The New Tax System changes (the price rule).

A simple interpretation of these principles is, if The New Tax System changes cause taxes and cost to fall by \$1, then prices should fall by \$1. If, after taking into account tax and cost changes resulting from The New Tax System leads to a cost rise of \$1 then prices may rise but no more than a \$1. In any event, no price may rise by more than 10% as a result of The New Tax System changes.

The key requirement here is that all indirect tax reductions are passed on and that businesses do not increase the net dollar margin on their goods and services as a result of The New Tax System. Effectively the dollar profit you were making on each unit of a product or

service before the tax changes should not increase as a result of the tax changes. Remember you are not required to reduce your dollar margin. However, you may choose to as a result of the competitive market.

A simple summary of the price change process under The New Tax System is provided overleaf.

To further help you change your prices you might find it useful to use the **small business price adjustor** which is available on the following websites:

- ▶ www.gststartup.gov.au
- ▶ <http://gst.accc.gov.au>

Price change pro

	Pricing Components	Current Pricing Process	The New Tax System Pricing Process
A	Wholesale price	\$50.00	\$50.00
B	Sales Tax (22% rate)	\$11.00	
C	GST 10%		\$5.00
D	Cost of good	\$61.00 (A+B)	\$55.00 (A+C)
E	GST Input Tax Credit		(\$5.00)
F	Business cost structure	\$20.55	\$20.30
G	Net profit/margin	\$18.00	\$18.00
H	Price before GST		\$88.30 (D-E+F+G)
I	GST		\$8.83 (H x 10%)
J	PRICE	\$99.55 (D+F+G)	\$97.13 (H+I)
K	SELLING PRICE (price point)	\$99.00	\$97.00
L	GST APPLICABLE		\$8.82 (K x 1/11 th)

EXPLANATION TIP	
	In this example the wholesale price has not changed. However, remember that under The New Tax System your wholesale price may change because of reductions in direct and embedded indirect taxes. You need to check with your supplier.
	Wholesales sales tax does not exist under The New Tax System.
	Because GST is applied at each point in the supply chain your wholesale supplier is required to add 10% GST.
	The cost of the good has changed because of the removal of wholesales sales tax which is replaced by the GST.
	Because 10% GST has been added to your wholesale price you are entitled to an input tax credit of \$5.00. You must get a tax invoice from your supplier before you can claim an input tax credit.
	<p>Business cost structure consists of:</p> <ul style="list-style-type: none"> ▶ Reduction in operating costs of 30c. (In this example your operating costs have decreased). ▶ Increase in net additional compliance costs of 5c. (You may recoup any net additional compliance costs you reasonably incur. In this example net additional costs have been identified as 5c). <p>To help calculate your adjusted cost of these expense items you can use the small business cost saving estimator referred to at page 6.</p>
	Under ACCC guidelines your net profit (margin) in \$ terms cannot increase. The net dollar margin rule.
	Add 10% GST.
	This is the price you have calculated.
	Now that you have identified your new price you need to look at it and assess how it sits in your market. In this example you have decided the selling price should be \$97.00. You have decided to adjust the selling price to the preferred price point of \$97.00. Remember you can adjust individual prices to price points provided that any upward adjustments are balanced by downward adjustments within the line of products being considered. The key here is that your margin overall has not increased and that no individual price increases by more than 10%.
	In this example you would account \$8.82 GST as part of your Business Activity Statement (BAS). Depending when you sell the good your \$8.82 GST liability will not necessarily be reported in the same BAS as where you claimed your \$5.00 input tax credit (refer E).

Some tips on what you should do

- ▶ START REVIEWING YOUR PRICES AS SOON AS POSSIBLE
- ▶ YOU MAY WANT TO USE A CALCULATOR TO ESTIMATE HOW COSTS WILL CHANGE AS A RESULT OF THE NEW TAX SYSTEM
- ▶ TALK TO YOUR ACCOUNTANT ABOUT YOUR PRICE CHANGES
- ▶ WRITE TO YOUR SUPPLIERS AND ASK THEM WHAT YOUR JULY 1 BUYING PRICE WILL BE AND IDENTIFY THE SAVINGS ACHIEVED
- ▶ KEEP A RECORD OF HOW YOU HAVE CALCULATED ANY CHANGES
- ▶ CHANGE YOUR SHELF LABELS TO DISPLAY THE GST INCLUSIVE PRICE AS SOON AS POSSIBLE AFTER 1 JULY 2000 AND BY NO LATER THAN 10 JULY 2000
- ▶ ENSURE THAT PRICE TICKETS ON INDIVIDUAL STOCK ITEMS ARE UPDATED AS SOON AS POSSIBLE AND BY NO LATER THAN 1 AUGUST. IF YOU ARE UNABLE TO DISPLAY GST INCLUSIVE PRICES ON INDIVIDUAL STOCK ITEMS ON 1 JULY, ENSURE THAT YOU HAVE PROMINENT AND CLEAR SIGNAGE IN PLACE SO CUSTOMERS ARE NOT CONFUSED
- ▶ IF YOU ARE UNSURE ABOUT YOUR OBLIGATIONS SEEK ADVICE

Other sources of information

GST START-UP ASSISTANCE OFFICE

www.gststartup.gov.au

GST ASSIST

6am to midnight Monday
to Friday, 9am to 9pm
weekends Australia-wide
for the cost of a local call
Tel: 13 30 88

AUSTRALIAN COMPETITION & CONSUMER COMMISSION (ACCC)

<http://gst.accc.gov.au>
Tel: 1300 302 502

AUSTRALIAN TAXATION OFFICE (ATO)

www.taxreform.ato.gov.au
Tel: 13 24 78

OFFICE OF SMALL BUSINESS

www.business.gov.au

CPA AUSTRALIA

www.cpaonline.com.au
Tel: (03) 9606 9606

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA (ICAA)

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