

Regulation impact statement —
Tax integrity: extending GST to digital
products and other services imported
by consumers

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1. What is the problem?

Background of the Goods and Service Tax

The Goods and Services Tax (GST) was introduced in 2000 and is Australia's primary tax on final consumption.

At the time of introduction, it replaced a range of narrow-based and inefficient taxes, such as the wholesale sales tax, financial institution duties and various kinds of stamp duties. These taxes had become very complex and distortive, often with a multitude of tax rates.

By comparison, a broad-based consumption tax like the GST is more efficient. In addition, the GST applies at a uniform rate to a broad range of goods and services. By taxing most goods and services in the same way and at the same rate, the GST reduces the complexity and distortions that arise when consumption items are taxed differently.

The GST applies to most types of goods and services. However, a significant portion of consumption is excluded by design, such as fresh food, financial services, health and education. The reasons for these exclusions vary.

What is the problem with digital products and services and the GST?

Digital products and services imported by consumers in Australia from non-resident businesses are another example of a supply which is generally excluded from the GST. This is due to the way the original GST legislation was drafted, and is not an intentional design feature.

At the time the GST legislation was drafted (1999), the size and growth of the internet and digital economy was not anticipated. Over time, growth in this sector has brought to light the significant tax integrity risks associated with the digital economy. As a matter of tax principle, these transactions should be captured by GST; however, due to the current wording of the legislation, are not.

These inequities in the application of the GST cause two problems: firstly, it poses a significant tax integrity risk, negatively affecting the GST revenue base; and secondly, it may create a competitive tax disadvantage for Australian suppliers.

What types of imported products and services are not currently attracting the GST, and will be covered by this measure?

Examples of digital products and services imported by consumers that may not currently attract GST include: consultancy, accountancy and legal services; financial and insurance services; telecommunication and broadcasting services; online supplies of software and software maintenance; online supplies of digital content (such as movies, TV shows, music, e-books), digital data storage; and online gaming.

The tax integrity issue

The Organisation for Economic Co-operation and Development (OECD) preliminary report on *Tax Challenges of the Digital Economy*, which was prepared in the context of the work on Action 1 of the Base Erosion and Profit Shifting (BEPS) Action Plan, concluded that 'The collection of Value Added Tax (VAT) in business-to-consumer (B2C) transactions is a pressing issue that needs to be addressed urgently to protect tax revenue and to level the playing field between foreign suppliers relative to domestic suppliers'.¹

The OECD, as part of developing its guidelines on the issue, outlined that it is a fundamental principle of value added taxes, such as the GST, that tax on cross-border supplies is ultimately levied only in the taxing jurisdiction where the final consumption occurs, thereby maintaining neutrality within the VAT system as it applies to international trade.

To this end, the OECD has recommended that in relation to the treatment of most cross border B2C supplies that non-resident suppliers be required to register and remit the VAT/GST in the jurisdiction in which the consumer usually resides.

At present, such B2C transactions are generally not taxed in Australia, which means that similar supplies consumed in Australia but supplied by non-resident businesses, potentially receive a different tax treatment (in comparison with resident business), creating tax non-neutrality.

The revenue raised by the GST is provided to the states and territories (less costs for administration and certain penalties). Given this, the current treatment for digital products and services results in forgone revenue for the states and territories, affecting their ability to provide essential government services.

The market distortion issue

Non-resident businesses that sell digital products and services in Australia generally do not need to collect and remit GST on their Australian sales, while domestic Australian businesses do. This creates a tax disadvantage for Australian businesses, as they are competing with non-resident businesses who are not adding the GST to their sales. This may be creating a market distortion in consumer choice.

An example of this is subscriptions to news websites. If an Australian consumer subscribed to a news website operated by an Australian business, providing the supplier had a turnover of greater than \$75,000, GST would be charged on the price of the subscription. Generally, if the same consumer subscribed to a news website operated by a non-resident, no GST would be charged.

How common are downloads of digital products and services?

This is difficult to measure, as there is no single gatekeeper for downloading and households and businesses are not required to report this information to any authority.

1 OECD/G20 Base Erosion and Profit Shifting Project, *Addressing the Tax Challenges of the Digital Economy* preliminary report (September 2014), page 19.

How much GST is Australia missing out on?

As part of consultation on this measure, scoping for potential numbers of registrants to the system provided some guidance on potential revenue. As a result of this scoping, it is estimated that around \$350 million will be collected over the forward estimates, assuming a 1 July 2017 start date. This represents a small proportion of overall GST revenue (less than 1 per cent).

2. Why is government action needed?

Government action is recommended to achieve tax neutrality between resident and non-resident suppliers in relation the sale of digital goods and services. Australian businesses are at a tax disadvantage as they are required to charge GST on their digital sales (when they are registered for GST), whereas non-residents are not, regardless of their business turnover. Australian business have stated that this is affecting consumer choices, and they are missing out on sales as Australians are choosing to buy from non-residents to avoid paying the GST.

International developments

Internationally, the G20 and the OECD have been working together, alongside other stakeholders, to address weaknesses in the current taxation laws that create opportunities for base erosion and profit shifting (BEPS). Action 1 of the BEPS Action Plan deals with the tax challenges of the digital economy, including the difficulties of collecting value added taxes (such as the GST) on cross-border sales in the digital economy.

The OECD's final report on *Addressing the Tax Challenges of the Digital Economy* was released on 5 October 2015. It recommended that, for the collection of GST on imported digital products and services, countries should 'consider the introduction of the collection mechanisms included in the International VAT/GST Guidelines'.²

These Guidelines recommended that GST on digital products and services should be 'ultimately levied only in the taxing jurisdiction where the final consumption occurs'.³

Many countries have already acted to tax imported digital products, or announced their intention to do so, including Japan, New Zealand and the member states of the European Union.

2 OECD/G20 Base Erosion and Profit Shifting Project, *Addressing the Tax Challenges of the Digital Economy* 2015 final report (October 2015), page 13.

3 OECD, *International VAT/GST Guidelines* (April 2014), page 24.

3. What policy options are being considered?

Option 1: Apply GST to digital products and services imported by Australian consumers using a vendor registration model

Under this option, overseas vendors will be required to register for, collect and remit GST on the digital products and services they sell to Australian consumers. This is the model proposed in the 2015-16 Budget measure.

Option 2: Apply GST to digital products and services imported by Australian consumers using a consumer compliance model

Under this option, consumers would be required to identify digital products and services they import and remit any applicable GST. This is an alternative model of applying GST to digital products and services.

Option 3: No change

Under this option, no legislative changes would be made. The GST would not be collected on digital supplies by non-residents to Australian consumers, maintaining an inequity between resident and non-resident suppliers of digital supplies.

Australia would also be foregoing GST revenue on these sales.

Options 1 and 2 require legislative amendments, in addition to consultation, policy development, legislative design and for taxpayers to become aware of the changes. It is proposed that under either option, the amendments would apply prospectively from 1 July 2017. Option 3 would not require legislative amendment.

4. What is the likely net benefit of each option?

Option 1: a vendor registration model

Apply GST to digital products and services imported by Australian consumers using a vendor registration model

Overview

The collection of the GST on digital products and services using a vendor registration model involves the overseas online vendor collecting the GST from the Australian consumer at the point of sale. The overseas vendor then remits the collected GST to the Australian Taxation Office (ATO) on a periodic basis (likely to be quarterly or monthly, in line with requirements for domestic businesses).

This model is different from the current system for collecting the GST on imported goods above \$1,000 value, where the goods are stopped at the border and the relevant taxes and duties are collected upon importation. The nature of imported digital products and services means they are unable to be captured by the model for imported goods, as they are not physical in nature and cannot be identified, or held, at the border.

The vendor registration model has a proposed registration threshold for overseas vendors of \$75,000 of Australian turnover. This means that only overseas vendors selling more than \$75,000 of supplies to Australian customers are required register. Registration is available for vendors under this threshold, however it is not compulsory. This aligns the overseas vendor registration threshold with the existing threshold for domestic businesses.

Example A: Imported supply of streaming of video on demand — consumer

Global Workshop, an overseas vendor with an Australian turnover greater than \$75,000, supplies Philip, who lives in Perth, with digitally downloaded video editing software. Under the vendor registration model, Global Workshop would therefore be required to register for, collect and remit GST on Philip's purchase.

Identifying Australian residents in the sale process

Overseas vendors are able to identify Australian based consumers using business data they naturally collect as part of a normal business sale. This may include postal or residential address, credit card number (which have specific numbers to identify the country of origin), internet protocol (IP) address, previous sales history with the client, and at times, email address. During consultation on the design of this model, Treasury worked with stakeholders to ensure that they were able to isolate residency based on data they already collect. This also keeps compliance costs down for the vendor.

Electronic distribution platforms (EDP)

An EDP exists where vendors make supplies to customers through an electronic marketplace or store operated by another entity.

Under the proposed option, EDP operators rather than individual vendors will be responsible for any Australian GST on supplies to Australian consumers made through the EDP, unless the EDP operator has no influence over the substance of the supply. EDP operators may also agree with vendors to be responsible for GST on other supplies made through the platform. Where the EDP operator is not liable for a supply made through the EDP, liability for registration for GST in Australia and the collection of GST will rest with the vendor.

In general, it is anticipated that EDP operators will often be larger and better resourced than most of the vendors making supplies through the platform. The EDP will also have significant influence over the terms of sales made using their platforms and either manage or closely regulate the payment process. Given this, compliance and administration would be simplified if liability for GST rested on the platform operator rather than the vendor.

Example B: EDP liable for supply by an application (app) developer

Madison, an app developer based in Ireland, makes use of TouristApp, a Canada based EDP (that is registered for GST in Australia), for the worldwide distribution of an app she has developed on 'Architecture in Dublin; what to see for the tourist'. Under the terms of the distribution agreement, TouristApp collects payment from customers via its platform, arranges delivery of Madison's app to customers and requires Madison to agree to certain key terms and conditions when selling the app with TouristApp.

When a customer, resident of Australia, purchases Madison's app through TouristApp, TouristApp is liable for GST on the sale, which it must remit to the ATO. Madison does not need to account for Australian GST on the sale, as TouristApp have collected and remitted the GST on the sale as the EDP.

GST registration

Non-resident business will have the choice of two registration options:

- Simplified or limited registration, which enables a streamlined registration process (limited information required) with the ATO. Under this regime, businesses remit GST to the ATO but will not be entitled to Input Tax Credits (ITC) on supplies purchased in Australia to which the GST has applied. An Australian Business Number (ABN) will not be issued.
- Full registration where the business will be able to claim ITCs and be issued with an ABN. This process would be very similar to that of an Australian based business.

Compliance and enforcement

The ATO will be responsible for administering the measure, and will be provided with \$1.7 million over the forward estimates for this administration.

The ATO have an action plan in place to market these law changes to non-resident businesses. International experience indicates that larger entities will voluntarily comply. Compliance will also be encouraged or achieved by:

- International collaboration being considered under the draft OECD guidelines.

- A simplified registration and remittance system.
- The use of electronic systems similar to those in place in other countries to lodge GST returns electronically.
- Activating international treaties that cover exchange of information and debt collection with foreign jurisdictions in the area of GST.
- Penalising recipient consumers who misrepresent themselves as businesses to avoid GST.
- Applying existing compliance approaches to overseas based businesses which may include the Commissioner registering suppliers and also issuing default assessments.

The ATO already collect amounts from non-resident businesses for income tax and GST. This measure will broaden the existing program of international compliance.

Broader support for the vendor registration model

As outlined earlier, the OECD recommend that suppliers of digital services should be required to remit consumption tax to the jurisdiction in which the final consumer usually resides.

Many developed economies have, or are developing, models to apply their domestic consumption taxes to digital imports and services. This includes the European Union, South Africa, Japan, Korea and New Zealand. As an example, a similar model is currently used by the European Union to collect VAT on digital products and services sold to European consumers.

Taxing the supplier is also the preferred model for collecting GST on imports of low value physical goods by Australian consumers, as announced following the 21 August 2015 Council on Federal Financial Relations meeting.

This model can accommodate transactions that involve an off-shore third party or agent.

Benefits and costs

Benefits

This option would impose negligible compliance costs on Australian consumers.

- Australian consumers would be charged GST on imported digital products and services. While this will result in a change in price, there will not be any compliance costs imposed on consumers as a result of this change.
- There would be negligible costs to the consumer in the event they needed to seek a refund from the supplier for the purchase, as generally speaking this would be as part of refunding the entire purchase price, which would include the GST component.

The vendor registration model would also impose no additional compliance burden on Australian businesses.

This model is expected to raise \$350 million in GST over the forward estimates, assuming a 1 July 2017 start date.

Costs

Consultation with stakeholders outlined that many non-resident vendors already have the software systems required to collect a VAT/GST, as most on-line retailers operate in many jurisdictions and their software is built to accommodate this. In addition, their tax or accounting areas are experienced with vendor registration systems for VAT/GST as the Australian system will operate similarly to other jurisdiction's vendor registration systems.

In consultation on the draft legislation, feedback was incorporated from multinational stakeholders regarding systems they currently use and how the mechanics of an EPD operate. Changes were made that ensure that the requirements of the Australian legislation are not onerous and utilise current information technology (IT) system parameters, when possible.

Many non-resident or multinational organisations may have software systems in place to account for Australian GST, as they already collect GST for other products.

- As a result of the above two points, compliance costs for some non-resident vendors will be more limited.

In relation to small non-resident vendors, the \$75,000 registration threshold acts to remove small suppliers from the operation of the changes.

It is anticipated that non-resident business would require time and effort for implementation and would incur ongoing compliance costs. The estimated costs are outlined below. These have been tested and agreed with stakeholders. They assume approximately 100 non-resident businesses are required to comply with the measure:

- The costs to business of implementing vendor registration are estimated at around \$1.82 million, with ongoing costs of around \$420,000 per annum (equivalent to a change in regulatory burden of \$602,000 when measured on an annualised basis).

Table 1: Regulatory burden and cost offset estimate table — vendor registration

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$0.60	\$	\$	\$0.60
Cost offset (\$ million)	Business	Community organisations	Individuals	Total, by source
Agency	\$0.60	\$	\$	\$0.60
Are all new costs offset?				
<input checked="" type="checkbox"/> Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input type="checkbox"/> Deregulatory—no offsets required				
Total (change in costs — cost offset) (\$ million) = \$0				

Offsets will be found for 2016 from the Treasury Portfolio.

Option 2: a consumer compliance model

Apply GST to digital products and services imported by Australian consumers using a consumer compliance model.

Overview

This option would require individual Australian consumers to collect and remit the GST to the ATO, instead of overseas vendors.

Australian consumers would pay the GST on their annual tax return. This would involve the consumer; identifying the digital products and services they imported during the financial year, determining which products and services GST should have been applied to, calculating their GST liability for the year, completing a new part of their annual tax return (which would require them to report and remit the requisite GST), and storing these records for the relevant length of time.

Australian businesses that purchase digital products and services from an overseas vendor for business purposes would not be required to remit any GST on their purchase. This would ensure that the GST remains a tax on final private consumption, consistent with the domestic GST system (such as through the provision of input tax credits to registered businesses).

Example C: Imported supply of streaming of video on demand — consumer

Global Workshop, an overseas vendor, supplies Philip, who lives in Perth, with digitally downloaded video editing software. Philip does not carry on an enterprise and is not registered for GST purposes. Under the consumer compliance model, Philip would have to record his purchase of the video editing software, determine if it should have been GST exempt, account for it and any other digital products or services purchased on his income tax return, and then keep the record of his purchase for the minimum record keeping period.

Example D: Imported supply of streaming of video on demand — business

Similar to the previous example, Global Workshop, an overseas vendor, supplies Philip, who lives in Perth, with digitally downloaded video editing software. However, Philip uses the video editing software in his business and is registered for GST purposes. Under the consumer compliance model, Philip would not have to record his purchase of the video editing software in his next tax return, but would have to keep the record of his purchase for the minimum record keeping period.

Benefits and costs

Benefits

This model would achieve the policy objectives with no additional compliance costs for non-resident businesses or domestic businesses.

Costs

This model would involve extensive compliance costs for Australian consumers.

A consumer compliance model would be very difficult to administer. The ATO would be required to make considerable changes to the annual individual tax return process. These changes to the tax system and the method of completing annual tax returns would involve a large education and guidance campaign, as well as considerable amounts of advice from the ATO.

There would also be significant record keeping requirements placed on individual taxpayers, as they will need to keep receipts or invoices for each purchase of a digital product or service, in order to account for it at the end of the financial year.

As not all imports of digital products and services would be taxable supplies (for example, financial supplies) consumers would be required to distinguish between taxable and non-taxable supplies to calculate their GST payable.

Given the difficulties involved in administration, the ATO would need a considerable amount of additional resources to implement the consumer compliance model, make changes to annual tax returns, advise and educate Australian consumers on their obligations under the new system, and ensure compliance by the millions of affected Australian consumers.

This model would have an estimated compliance cost of around \$174 million for individual taxpayers in Australia. This is based on 1.5 million Australian residents importing digital products or services from non-residents to which the GST would apply. This is the cost for education and implementation, and includes the cost to the individual's time of completing the additional information on the annual income tax return. The number of Australian residents making downloads is a conservative estimate. This is important as a greater number of users would only increase the compliance cost for this option, which is already significantly greater than Option 1. These estimates have been tested and agreed with stakeholders.

- The costs to individuals of implementing a consumer compliance model are estimated at around \$108 million, with ongoing costs of around \$65 million per annum (equivalent to a change in regulatory burden of \$76 million when measured on an annualised basis).

Models such as this are not recommended by the OECD in relation to the application of GST on digital goods and services.

Table 2: Regulatory burden and cost offset estimate table — Consumer collection model

Average annual regulatory costs (from business as usual)				
Change in costs (\$ million)	Business	Community organisations	Individuals	Total change in costs
Total, by sector	\$	\$	\$76.12	\$76.12
Cost offset (\$ million)				
Agency	Business	Community organisations	Individuals	Total, by source
Agency	\$	\$	\$	\$76.12
Are all new costs offset?				
<input checked="" type="checkbox"/> Yes, costs are offset <input type="checkbox"/> No, costs are not offset <input type="checkbox"/> Deregulatory—no offsets required				

Average annual regulatory costs (from business as usual)
Total (change in costs — cost offset) (\$ million) = \$0

Offsets will be found for 2016 from the Treasury Portfolio.

Option 3: No change

No change is made to the current GST legislation. Digital products and other services supplied by non-resident businesses continue to be GST free

Overview

This option would involve not making any change to the current GST legislation.

Benefits and costs

Benefits

Non-resident business would not have to change their systems and collect GST on digital products and services.

Australian resident individuals would not be required to account for the GST on digital products and services on their income tax return.

There would be no financial impact on non-resident business or consumers in Australia.

Costs

Australian business would continue to be at a tax disadvantage in comparison to non-resident business in relation to the sale of digital products and services.

The Australian Government would continue not to collect the GST on the sale of digital products and services, which is revenue foregone for the States and Territories.

No regulatory burden and cost offset estimate table has been provided for this option as there is no change to current administrative arrangements.

5. Who was consulted about these options and how did this occur?

Treasury has undertaken significant consultation on two versions of draft legislation and explanatory materials for the introduction of a vendor registration model. The first consultation was conducted from 12 May to 7 July, and the second round of consultation was conducted from 7 October to 21 October. This is a combined total of 10 weeks consultation.

Treasury received 16 formal submissions in the first round of consultation and 10 formal submissions in the second round of consultation. These were from resident and non-resident business, accounting firms, academics and peak bodies associated with accounting and business.

In addition, Treasury engaged in targeted consultations with its New Zealand and South African counterparts, the OECD Business and Industry Advisory Committee (including representatives from a number of large overseas based telecommunications and software companies), domestic business, and tax and accounting professional bodies that operate internationally with clients potentially affected by this measure.

Consultation sessions were held via phone conference and in face to face settings. One-on-one feedback was also obtained.

Feedback was generally positive with stakeholders supporting the design of the measure and its consistency with the European Union model.

Overseas vendors were generally very supportive of the design of the vendor registration model and the synergies that the design has given the existing similar obligations with other jurisdictions, particularly the European Union.

Domestic business have stated that they are pleased the Government is acting to level the playing field on the sale of digital goods and services between domestic and international business.

Industry groups have also endorsed the measure, given it levels the playing field between domestic and non-resident suppliers.

In both rounds of consultation, the draft legislation and explanatory memorandum was released publicly on the Treasury website. No submissions were received from consumers or consumer groups, however they did have the opportunity to make a submission at any time during the consultation period. In general, community sentiment seems to be divided on the benefits of expanding the GST to cover additional items compared to other means of raising additional revenue. This is an ongoing commentary which relates to general broadening of the GST base, beyond the scope of these proposed changes.

Stakeholders views on compliance costs

Views on compliance costs were discussed and agreed with stakeholders during the consultation phase, and also after the consultation phase was finalised.

During consultation, many non-resident businesses (or their advisors) stated that they had pre-existing software in place that had the capability to be updated to account for GST sales to Australia.

- While they appreciated that some upfront investment will be required, they have been expecting this change from both Australia and other jurisdictions. The European Union has already made this change, and many multinationals operate in that market so adapting to applying the GST/VAT to products they sell is not considered to be a new concept.
- The costs involved in adapting their systems to account for Australian GST was not considered to be prohibitive. Many multinationals are expecting to make similar changes when other jurisdictions update their GST/VAT law.

No submissions received suggested implementing the consumer compliance model (option 2).

No submissions received suggested retaining the current system (option 3).

6. What is the best option from those considered?

The best option available is **Option 1**, to apply GST to digital products and services imported by Australian consumers using a vendor registration model.

A key advantage of this model is that it imposes nil to negligible compliance costs on Australian businesses and consumers.

At the same time, the vendor registration model also imposes only limited compliance burdens on overseas vendors.

Importantly, the vendor registration model is consistent with the way a number of other countries have implemented similar regimes overseas, and is consistent with OECD guidelines.

The alternative of applying a consumer collection model requires Australian consumers to pay GST on the digital products and services they import. This is not considered viable due to associated difficulties with the system and the significant compliance costs it would impose on millions of Australian consumers.

The option to retain the status quo would maintain the current system of tax inequity between resident and non-resident business, and result in revenue forgone.

Potential impacts on competition

Restore neutrality

This proposal will restore neutrality with respect to the value added taxation of services and intangibles provided by domestic and foreign businesses. This will benefit domestic businesses, that are already subject to GST, and remove the advantage for foreign businesses, that will no longer receive comparatively beneficial tax treatment. This will remove any distortion of consumer choices in favour of foreign suppliers caused by the current differential GST treatment.

This option achieves the policy objective by providing a more level playing field between domestic and overseas suppliers of digital products and services. It will mean that GST will no longer be a factor when domestic consumers decide which business to shop with when purchasing digital products and services. Furthermore it maintains the intended operation of the GST as a broad-based Australian consumption tax with limited exemptions.

It is important to note, however, that there will still remain a number of other factors affecting the international competitiveness of domestic businesses. The Productivity Commission reached a similar conclusion in relation to low value goods in their report *Economic Structure and Performance of the Australian Retail Industry*. In this report the Commission outlined that the avoidance of payment of GST is not the main factor affecting competitiveness of Australian retailers.⁴

4 Productivity Commission, *Economic Structure and Performance of the Australian Retail Industry* (November, 2011)

Considerations in relation to foreign business and trade

During consultation with non-resident business, logistical issues were discussed such as the information the non-resident vendor is required to collect from the consumer, and how this could utilise currently collected information. Changes were made to the second iteration of the draft legislation to incorporate suggestions from stakeholders on this issue. These changes, along with the simplified registration system, have been designed to make the end to end process easier for non-resident business and negate any concerns that non-residents may exit the Australian market due to difficulties complying with our legislation.

- It is important to note that non-resident small business (with an Australian turnover of less than \$75,000) will not be required to register, and that larger business will often already have software in place to manage GST/VAT collection and remittance in another jurisdiction.

Other issues

Double taxation from other value added taxes

The risk of double taxation is low as under the destination principle, vendors generally tax according to the destination of the item, rather than the origin of the item.

Businesses relocating as a tax avoidance mechanism

The risk of a business relocating to avoid remitting Australian taxes is low in relation to this measure, as the tax applies only to supplies to consumers and applies based on the residence of the consumer — the residence of the supplier is generally irrelevant. More generally, if a business relocates to another country to avoid remitting tax, the reasons are broader.

7. How will the chosen option be implemented?

Legislation would be required to implement Option 1, the vendor registration model. The proposed start date is 1 July 2017.

It is intended that overseas vendors would have approximately one year between the passage of legislation and the start date of the measure to ensure that non-resident businesses have an adequate amount of time to learn and understand their requirements, as well as implement appropriate business system updates.

The ATO would be responsible for administering the system. The ATO are experienced in implementing such tax reforms and educating and guiding taxpayers about their new tax obligations. The ATO will be provided with \$800,000 of capital expenditure and \$700,000 of expenses in 2016-17 and \$100,000 of expenses in both 2017-18 and 2018-19.

Enforcing and monitoring compliance

There are a number of steps the ATO has already undertaken, and can undertake as required to enforce and monitor compliance with the measure. These are outlined under Option 1.

8. Evaluation

As noted earlier, the changes are proposed to start from 1 July 2017. This will allow time for non-resident business to understand the changes, update their software systems, register and seek assistance from the ATO if required.

Post-implementation, the ATO will monitor collections of digital supplies from non-resident suppliers, and inform the Government in the event that the legislation is not working as intended.

In this event, the Government could consider what amendments could be made to the legislation to increase compliance with the overall intent of the policy of applying GST to digital products and services.

More broadly, the Government has announced that the GST threshold for low value goods will be reduced. This will provide synergies with the digital products and other services legislation, in terms of implementation, compliance, enforcement and evaluation.