

## Position Statement



July 2015

### Tax on Digital Downloads – a first step towards levelling the GST playing field

The National Retail Association endorses the Federal Government's move to levy the Goods and Services Tax on digital products. We believe that the principles of consistency, fairness and integrity demand the same tax treatment of a product, regardless of how it is delivered to the consumer.

Tax integrity issues are almost always dealt with incrementally, over time, as loopholes are discovered or grow. This is clearly the case with digital downloads, where products were not even conceived, let alone available, when the GST was implemented. However, the electronic distribution of material such as movies, music, games and even literature is now commonplace, and is easily the fastest-growing area of retailing. Failure to apply a consistent tax regime for these products would not only be a serious dereliction of duty for the Federal Government, it would lead to escalating revenue losses as consumer behaviour trends further towards on-line purchasing.

While the NRA is fully supportive of taxing digital downloads, we are also aware that closing this loophole will create a new anomaly for some purchases, specifically the same products that are order on-line but delivered in "hard" form. Under this proposed regime, a movie, music album or e-book purchased on-line and downloaded straight away will attract GST, but the same product purchased overseas in hard form and shipped to Australia will be tax-free. And of course, that product would attract the tax if purchased over the counter here.

So we believe the imposition of GST on digital downloads must be the first step to fully levelling the playing field for local retailers. Ideally, the start of these proposed measures would be aligned with the recent initiative of the Federal and State Governments to also collect GST on parcels valued at under \$1000. If these start dates cannot be aligned, then the Government should treat the introduction of GST on digital downloads as an opportunity to test the roll-out and learn from any implementation issues. The learnings along the way, including the idea of applying the GST at the point of transaction not when the goods cross the border, should result in some lessons for wider tax reform. In any case, there must be wider reform of the GST exemptions for overseas sellers.

In his 2015 Budget Speech, Treasurer Joe Hockey made the following observations about overseas-based retailers selling digital products into the domestic market:

*It is unfair that overseas based businesses selling services into Australia may not charge GST when local businesses have to charge GST. A local business that employs Australians, pays rent in Australia, pays tax in Australia, and helps build our economy is disadvantaged by the current system. We will level the playing field for Australian businesses by mandating that foreign businesses supplying digital products and services are subject to the GST.*

The NRA thoroughly endorses the Treasurer's sentiments. However, there is no reason that these very arguments should not also apply to overseas businesses that import goods worth up to \$1000 into Australia. The reforms contained within the 2015 Budget have reduced the size of the GST loophole, but only marginally. Genuine reform to "level the playing field" must address the entire advantage currently enjoyed by overseas retailers, regardless of how their products are delivered.