Senate Economics References Committee

Inquiry into Cooperative, mutual and member owned firms

ANSWERS TO QUESTIONS ON NOTICE

Australian Taxation Office

26 February 2016

Department/Agency: ATO
Question: 1
Topic: Tax treatment of mutuals and co-ops
Reference: Hansard – page 13

Question:

Senator XENOPHON: In terms of the tax treatment of mutuals and co-ops, Mr Poulakis, is it fair to say that, in simplistic terms, larger banks and building societies have to bear GST input costs without getting a GST credit back because they do not charge GST on most of their services? Would that be the case?
Mr Poulakis: I have to profess to not knowing too much about the GST implications. My general knowledge of the large co-op banks and credit unions is that they are taxed very, very similarly to the large banks.
Senator XENOPHON: I am very happy for you to take this on notice. There are no trick questions here, I am just trying to get my head around this. The Customer Owned Banking Association came to speak to me in the last couple of days and they have some legitimate concerns. Is it fair to say that large banks and building societies can avoid, legitimately, the input GST cost by providing those services internally to the organisations, whereas smaller member-owned banks and building societies have to seek these services externally, and therefore pay GST on them?
Mr Poulakis: I will need to take that on notice.
Senator XENOPHON: Okay. You may want to take this on notice: would that be different to smaller credit unions in that they are entitled to a reduced input tax credit, the RITC?
Mr Poulakis: Again, I do not know the GST laws sufficiently well to give you complete answer.
Senator XENOPHON: You probably know more about it than I do, so you are doing well. Larger entities, the bigger banks for instance, and other larger financial entities, through insolvency can legitimately avoid paying the GST and credit unions get a reduced input tax credit, but the smaller cooperative member-owned banks and building societies have to bear the input GST cost. I would like to put on notice whether the tax office can confirm that because I think some would say that that is an inequity that puts one part of the cooperative banking sector and financial services sector at a disadvantage. I do not want to take it any further than that.

Answer:

1. *In terms of the tax treatment of mutuals and co-ops, Mr Poulakis, is it fair to say that, in simplistic terms, larger banks and building societies have to bear GST input costs without getting a GST credit back because they do not charge GST on most of their services? Would that be the case?*

It is correct to say that as financial institutions make predominantly input taxed supplies, they are generally not entitled to recover GST on input costs (subject to some exceptions such as reduced input tax credits (RITCs)).

2. *Is it fair to say that large banks and building societies can avoid, legitimately, the input GST cost by providing those services internally to the organisations, whereas smaller member-owned banks and building societies have to seek these services externally, and therefore pay GST on them?*

Where financial institutions acquire external services they may incur GST on those costs. If a financial institution chooses to internally source services, while there is no GST on salary costs, it would incur GST on other costs related to insourcing which it may or may not be able to recover.

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GST relief may be available to financial institutions where those external services acquired are eligible for RITCs. There is a prescribed list of RITC eligible acquisitions contained in the GST regulations which includes many of the external services acquired by financial institutions.

3. *You may want to take this on notice: would that be different to smaller credit unions in that they are entitled to a reduced input tax credit, the RITC?*

A credit union* is entitled to a specifically defined RITC, provided that the thing is being acquired from: (a) an entity that is wholly owned by 2 or more credit unions; or (b) an entity that is owned by an entity mentioned in (a).

*It is relevant to note that the definition of a 'credit union' for the purposes of this reduced credit acquisition item recognises those pre 1 July 2011 APRA listed credit unions who have re-branded as a an APRA listed bank since 1 July 2011 and have retained their mutual ownership structure throughout.

4. *Larger entities, the bigger banks for instance, and other larger financial entities, through insolvency can legitimately avoid paying the GST and credit unions get a reduced input tax credit, but the smaller cooperative member-owned banks and building societies have to bear the input GST cost. I would like to put on notice whether the tax office can confirm that…*

Cooperative member owned banks and building societies may be entitled to RITCs for certain acquisition they make. Whether they have to bear the input GST cost will depend on the nature of the acquisition.