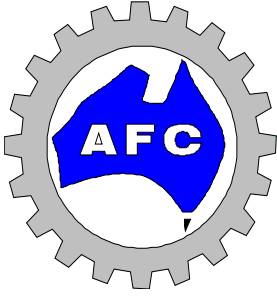


SUBMISSION 3



Submission to the House Standing Committee on Economics

Review of the Tax Laws Amendment (2011 No. 9 Measures) Bill 2011

This submission is made on behalf of members of the Australian Finance Conference (AFC) and Australian Equipment Lessors Association (AELA); membership lists accompany. AFC and AELA Members are the major providers of equipment finance in Australia, and include the major and regional banks, international banks, independent financiers, manufacturer financiers, rental companies and fleet leasing companies. Members appreciate the opportunity to make this submission to the House Standing Committee on Economics.

Equipment finance in Australia is a \$90 billion market, with financiers providing three basic products: leasing, hire purchase and chattel mortgage. These products fund the acquisition of capital equipment.

Our comments on *Tax Laws Amendment (2011 No. 9 Measures) Bill 2011* relate to Schedule 3, which amends the GST treatment of financial services following Treasury's *Review of the GST financial supply provisions*. Specifically, our submission relates to the amendment to allow taxpayers who account on a cash basis to treat an acquisition made under a hire purchase agreement as though they do not account on a cash basis. The Australian equipment finance industry is totally supportive of this amendment.

The equipment finance industry was delighted when in the 2010-11 Budget the Government announced its intention to amend the financial supply provisions of the GST law, allowing full input tax credits upfront for businesses accounting on a cash basis when they enter into hire purchase arrangements.

The amendment will rectify a significant tax incongruity; the GST treatment of cash basis taxpayers under hire purchase arrangements has been distorting the

equipment finance market, causing a major shift to chattel mortgage that would not otherwise occur. GST cash basis taxpayers under hire purchase arrangements cannot presently claim input tax credits upfront, but can only claim them over the life of the agreement. Not surprisingly, these customers have opted for chattel mortgage, enabling them to claim the input tax credit immediately.

Chattel mortgage was largely unused prior to GST, but as a direct consequence of this distortion now accounts for almost half of equipment finance. It is well accepted that tax distortions which adversely impact on commercial decisions should be addressed, and this amendment does this; it puts hire purchase on an equal GST footing with the other equipment finance products.

Other GST/VAT countries have also introduced special rules of this type; in the comparative jurisdictions of the UK, New Zealand and South Africa, a cash basis taxpayer is entitled to an input tax credit for the whole of the VAT/GST payable under the hire purchase agreement in the tax period that corresponds to the taking up of the hire purchase.

This is a significant tax reform measure. It will address the adverse consequences of the current tax treatment of hire purchase, which has created a tax inefficiency which has driven taxpayers to other finance products. As such, this amendment enhances the integrity of Australia's GST regime.

Equipment financiers in Australia are now well advanced in preparing for the 1 July 2012 transition to these new arrangements. In this process our Members have been greatly assisted by the consultation afforded by the Commonwealth Treasury, both in relation to the measure itself and practical implementation issues. This consultation has been extremely valuable, and our Members acknowledge the helpful assistance of the Treasury officials involved.

We would be pleased to provide further details as required by the Committee.

*** **

9 December 2011.



AFC MEMBER COMPANIES

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|----------------------------------|-------------------------------|
| Advantagedge Financial Services | Nissan Financial Services |
| Advance Business Finance | Once Australia t/as My Buy |
| Alleasing | PACCAR Financial |
| American Express | Pepper Australia Pty Ltd |
| ANZ t/as Esanda | Provident Capital |
| Automotive Financial Services | Profinance |
| Bank of Melbourne | RABO Equipment Finance |
| Bank of Queensland | RAC Finance |
| BMW Australia Finance | RACV Finance |
| Branded Financial Services | Ricoh Finance |
| Capital Finance Australia | RR Australia |
| Caterpillar Financial Australia | Service Finance Corporation |
| CNH Capital | Sharp Finance |
| Collection House | SME Commercial Finance |
| Commonwealth Bank of Australia | Solar Financial Solutions |
| Credit Corp Group | St. George Bank |
| De Lage Landen | Suncorp |
| Dun & Bradstreet | Suttons Motors Finance |
| FlexiGroup | The Leasing Centre |
| Ford Credit | Toyota Financial Services |
| GE Capital | Veda Advantage |
| Genworth Financial | Volkswagen Financial Services |
| GMAC | Volvo Finance |
| HP Financial Services | Westlawn Finance |
| HSBC Bank | Westpac |
| Indigenous Business Australia | Wide Bay Australia |
| International Acceptance | Yamaha Finance |
| John Deere Financial | |
| Kawasaki Finance | |
| Key Equipment Finance | |
| Kubota Australia Finance | |
| Komatsu Corporate Finance | |
| Leasewise Australia | |
| Liberty Financial | |
| Lombard Finance | |
| Macquarie Equipment Rentals | |
| Macquarie Leasing | |
| Max Recovery Australia | |
| Members Equity Bank | |
| Mercedes-Benz Financial Services | |

Professional Associate Members:

Allens Arthur Robinson
CHP Consulting
Clayton Utz
Dibbs Barker
Henry Davis York



AUSTRALIAN EQUIPMENT
LESSORS ASSOCIATION
Incorporated ABN 19 054 908 520

GPO Box 1595 Sydney 2001

Level 7, 34 Pitt Street
Sydney 2000

Telephone (02) 9231 5479
Facsimile (02) 9232 5647

AELA MEMBER COMPANIES

| | |
|---|-----------------------------------|
| Advance Business Finance | Kemp Strang |
| Alleasing Group | Key Equipment Finance |
| Allens Arthur Robinson | Komatsu Corporate Finance |
| Alliance e-finance | KPMG |
| ANZ Asset Finance | Lanier (Australia) |
| Atlas Copco Customer Finance | Macpherson + Kelley Lawyers |
| Australasian Asset Residual Management | Macquarie Leasing |
| Australian Structured Finance | Mallesons Stephen Jaques |
| Baker & McKenzie | Medfin Australia |
| Bendigo Bank Leasing Division | Members Equity Bank |
| Blake Dawson | Mercedes-Benz Financial Services |
| BMW Australia | Mercer Australia |
| BOQ National Finance | Morris Finance |
| Bynx Australia | National Australia Bank |
| Canon Finance Australia | NetSol Abraxas |
| Capital Finance Australia | NLC |
| Caterpillar Financial Australia | Norton Rose Australia |
| Challenge Consulting Australia | PACCAR Financial |
| CHP Consulting | Pitney Bowes Credit Australia |
| Cisco Systems Capital Australia | Print Solutions Finance |
| CIT Financial | Realtime Computing |
| Clayton Utz | RentSmart |
| CNH Capital Australia | Ricoh Finance |
| Colin Biggers & Paisley | RR Australia |
| Commercial Asset Finance Brokers Assoc. | Service Finance Corporation |
| Commonwealth Bank of Australia | SG Equipment Finance |
| De Lage Landen | Sharp Finance |
| Deloitte Touche Tohmatsu | Sofico Services Australia |
| DibbsBarker | Solutions Asset Management |
| Dominion Group | Southern Finance Group |
| equigroup | Spectra Financial Services |
| FlexiGroup | St. George Bank |
| Freehills | Suncorp |
| Fuji Xerox (Finance) Australia | SunGard Asia Pacific |
| GE Commercial Finance | The Leasing Centre (Australia) |
| Holman Webb Lawyers | Toyota Finance Australia |
| Henry Davis York | Traction Group |
| HP Financial Services | United Financial Services Capital |
| IBM Global Financing | Volvo Finance |
| Innovation Fleet | Westlawn Finance |
| Insyston | Westpac Institutional Banking |
| International Decision Systems | White Clarke Asia Pacific |
| Investec Professional Finance | Yamaha Motor Finance |
| John Deere Credit | |

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