

# The Application of Goods and Services Tax to Financial Services

## Consultation Document

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The Honourable Peter Costello, M.P.  
Treasurer of the Commonwealth of Australia  
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# Table of Contents

The application of GST to financial services .....	1
Proposed treatment of supplies under the GST .....	5
Appendix A: The reduced input tax credit.....	18
The self-supply bias.....	18
The reduced input tax credit.....	18
Which inputs will not attract a reduced input tax credit? .....	21
Joint supplies.....	22
Rate(s) of the reduced input tax credit.....	22
Practical operation of the reduced input tax credit .....	24
Appendix B: List of supplies eligible for a reduced input tax credit .....	25



# THE APPLICATION OF GST TO FINANCIAL SERVICES

The Government announced in its August 1998 policy document *A New Tax System*, that under the goods and services tax (GST) some financial services would be input taxed in line with international practice. That is, for these services, no GST would be payable on the supply, but no input tax credits would be allowed for any GST paid on purchases used to make the supply. The *A New Tax System* document noted that the precise range of services that would be taxed or input taxed would be determined in consultation with industry.

The Government introduced legislation into Parliament on 2 December 1998. The *A New Tax System (Goods and Services Tax) Act 1999* (GST Act) was given Royal Assent on 8 July 1999. The GST Act contains provision for regulations to provide greater clarity regarding the tax treatment of financial services. The Government has been undertaking targeted consultations with the financial services industry since December 1998.

This paper reflects information gathered from these consultations and seeks to provide a focus for broader industry and community feedback on the application of the GST to financial services. This feedback will be taken into account when finalising the regulations that relate to financial services.

## Input taxation of financial services

Financial services are generally input taxed in overseas jurisdictions due to the difficulty of identifying, for individual transactions, the value added in a financial intermediary's margin. Input taxation does not require the valuation of a financial service.

International practice is to also input tax many explicit fees or commissions related to the provision of financial services (even where these fees and commissions can be readily valued). These fees and commissions are often input taxed to avoid biases that would be caused by different tax treatments applying to similar services that happen to be charged for differently.

The treatment of specific financial services varies considerably between countries. For example, in New Zealand general insurance is taxable, whereas in the United Kingdom general insurance is input taxed. Differences in treatment reflect a number of considerations including when the particular tax was introduced, the structure of the relevant financial sector and economy, and revenue considerations.

The Government proposes that a key guiding principle be that financial services that are normally charged for by way of a margin will be input taxed. In the GST Act, input taxed financial services are referred to as *financial supplies*. Examples of financial supplies include lending, taking deposits, making contracts for life insurance investment products and investing superannuation fund members' contributions.

The Government proposes that for many other services that are not charged for in a margin, the normal taxable treatment will apply. For example, the provision of financial advice, financial accounting services and the provision of banking services *as an agent*, would be taxable.

The Government is proposing that a broader range of financial services will be taxable than is the case in many international jurisdictions. In particular, the Government proposes that two categories of services should be taxable that are often input taxed in overseas regimes.

First, many overseas jurisdictions have input taxed a range of fee or commission based financial services that could feasibly be taxable. This is particularly the case where the services are not directly financial supplies but involve 'arranging' financial supplies. Subdivision 40-A of the GST Act, and in particular item 13 in section 40-5(2), adopts similar concepts. Often this has been done partly in an attempt to address the self-supply bias that arises when an input taxed financial service provider uses inputs that would normally be taxable. In other words, many overseas jurisdictions have attempted to ameliorate the problems of input taxation by extending the scope of input taxation 'upstream' to another layer of suppliers. A disadvantage of this approach is that it increases the compliance burden of suppliers to financial institutions.

With the introduction of the *reduced input tax credit* at Division 70 of the GST Act (which is unique to the Australian GST), the self-supply issue can be addressed without the need to extend input taxation to those services that can feasibly be valued. In other words, the Government proposes that the self-supply bias be addressed by allowing reduced input tax credits rather than extending the scope of input taxation. This approach can deliver a similar tax outcome to broader input taxation (ie revenue neutral) but at a lower compliance cost for certain suppliers to financial institutions. The approach also reduces other potential self-supply biases as fewer suppliers are subject to input taxation.

The proposed approach is also likely to provide a more certain outcome for industry participants. International experience indicates that the concept of 'arranging' is difficult to legislatively define and therefore leads to disputes and litigation as to the precise scope of input taxation. **Appendix A** provides more detail on the reduced input tax credit.

Second, many overseas jurisdictions input tax certain services *provided by agents* where there are no particular valuation difficulties. The Government proposes that most services provided by agents will be taxable. Where similar services are supplied by an enterprise acting *as a principal*, then these services will be input taxed. Common law definitions of principal and agent will be used in drawing this distinction.

The proposed approach enhances the integrity of the taxation of imported services. Division 84 of the GST Act provides that a 'reverse charge' of GST applies to services imported by enterprises that are not entitled to input tax credits. This provision places domestic suppliers to financial institutions on an equal footing with overseas suppliers. However, Division 84 does not apply to input taxed services. The proposed approach reduces any tax-based incentive for financial institutions to use overseas rather than domestic suppliers by limiting the scope of input taxed services.

In line with international practice, some supplies that would normally be taxable are sometimes provided as an incidental item in connection with financial supplies. The Government proposes that these will be considered as incidental supplies and would be input taxed. For example, where a financial institution providing a housing loan values a house and charges a fee to the borrower, this would be incidental to the loan and input taxed, notwithstanding that valuation services are normally taxable.

**Table 1** of this document outlines the proposed treatment of individual services. The final regulations may use slightly different descriptions if the feedback from the industry indicates that alternative wording would provide greater clarity.

The Government welcomes comments on these proposals. The Government requests that any suggested changes should clearly describe the particular product and preferred treatment. The Government is also interested in any information about the cost structure of services on the reduced input tax credit list. In particular the breakdown between labour costs, profits and other purchased inputs would be helpful in determining the appropriate reduced input tax credit rate.

It is expected that the Government will conduct regular reviews of both the list of services qualifying for a reduced input tax credit and applicable rate(s). Changes to the regulations will then be recommended to Government, based on observation and the recommendations of the financial sector itself. As changes to the regulations will affect the GST base the Commonwealth will need to consult with the States and Territories in accordance with the Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations.

**Table 1: Proposed treatment of supplies under the GST**

Service	GST Treatment	RITC eligible
<b>Transaction banking/cash management/savings, cheque or deposit accounts</b>		
As principal, creating, keeping or closing a savings, cheque or deposit account: interest margins and fees charged to account holders, including Transaction fees Account keeping fees Closure of account fees Balance below minimum fees Teller withdrawal fees Bank cheque fees Deposit fees Replacement card, book, PIN fees Electronic funds transfer fees ATM statement enquiry fees ATM withdrawal fees ATM stop card fees Sales of standard cheque books/deposit books Fees for cheques deposited but returned unpaid Fees for post-dated cheques Cashing cheques/clearance fees Statement charges Dishonoured cheque fees Unauthorised overdraft fees Term deposit prepayment fees Phone banking fees	Input taxed	
Cash sorting for account holders	Input taxed	
Audit confirmation of customer's account	Taxable	Y
As agent, creating, issuing or closing a savings, cheque or deposit account Agency fees	Taxable	Y
Processing of account holders' cheque transactions on behalf of account providers	Taxable	Y
Processing of account information on behalf of account providers Fees for storage of archives and retrieval services Fees for statement processing Fees for bulk mailing of statements	Taxable	Y
Fees for cheque forms/books or deposit forms/books charged to account provider	Taxable	N
Charge for overprinting standard forms or printing to customer's own requirements	Taxable	N
Production and encoding of plastic cards for account providers	Taxable	Y
Processing debit/credit card applications for card issuer	Taxable	Y

Service	GST Treatment	RITC eligible
<b>Payment/funds transfers</b>		
Money transfer services for account holders Automatic transfers between accounts Direct credits Direct debits (including B-pay transactions)	Input taxed	

**Table 1: Proposed treatment of supplies under the GST (continued)**

<b>Service</b>	<b>GST Treatment</b>	<b>RITC eligible</b>
Foreign currency drafts Charges on encashment	Input taxed	
Foreign exchange Provision of currency or travellers cheques	Input taxed	
Credit/debit card merchant fees Fees/discounts collected from merchants for sales processed by credit and debit cards Joining/establishment fees Service fees Merchant annual fees Merchant transaction fees Merchant monthly processing fees Imprinter and card terminal rental Fees for installation and management of terminals Charges to merchant for telecommunications line rental Merchant establishment fees	Taxable	N
EFT and credit/debit card interchange fees Fees charged by an EFT terminal network owner to a card issuer for access to and use of the terminal network	Taxable	Y
On behalf of card issuers, settling and clearing transactions initiated via ATMs EFTPOS Credit and debit cards	Taxable	Y
Interchange and transaction processing fees charged to cardholders by card issuers	Input taxed	
<b>Securities transactions</b>		
As principal, purchasing or selling equity securities	Input taxed	
Investment companies Capital contributions	Input taxed	
As agent, arranging the purchase or sale of equity securities Fees for order placement and trade execution Fees for settlement of trades Fees for management of the issue of equity securities, including rights issues and bonus issues Fees for arranging flotations or privatisations Fees for arranging mergers and acquisitions Fees for arranging takeover bids	Taxable	Y
Underwriting the issue of equity securities	Taxable	Y
Securities lending as principal	Input taxed	
As principal, purchasing or selling debt securities	Input taxed	

Service	GST Treatment	RITC eligible
As agent, arranging the purchase or sale of debt securities Fees for management of the issue of debt securities	Taxable	Y
Underwriting the issue of debt securities	Taxable	Y

**Table 1: Proposed treatment of supplies under the GST (continued)**

<b>Service</b>	<b>GST Treatment</b>	<b>RITC eligible</b>
As principal, purchasing or selling interests in, or rights to or under a unit trust	Input taxed	
As agent, arranging the purchase or sale of interests in, or rights to or under a unit trust	Taxable	Y
Share/unit registry services to issuer	Taxable	Y
<b>Loans</b>		
As principal, making loans and advances, including overdrafts, credit card lending, mortgage loans, securitised loans and foreign currency loans Interest Discount Late payment charges Fees for early repayment Application fees Commitment fees Other loan-related fees charged by lender to borrower	Input taxed	
As agent, arranging or managing a loan Agency fees Facility fees Mortgage broking fees Fees for arranging syndicated loans Introducer/broker fees	Taxable	Y
Audit confirmations	Taxable	Y
Lenders mortgage insurance premiums	Taxable	Y
Lenders mortgage insurance Loan risk fee charged by lender to borrower	Input taxed	
Loan application and processing services provided to lender Loan origination/brokerage fees Fees for settlement/discharge of loan, including document preparation Fees for registration of loan documents Fees for credit reference assessments and credit scoring analysis Fees for valuations provided as part of mortgage application Fees for searches for property title Fees for registration/certification of title Fees for mortgage variations including changes of names Fees for processing (adding/deleting) caveats	Taxable	Y
Loan management services to lender Fees for processing of repayments Fees for statement preparation Fees for filing/requisitioning of loan file records	Taxable	Y

Service	GST Treatment	RITC eligible
Debt collection services Debt recovery fees Litigation fees Fees for lodgement of documents	Taxable	Y

**Table 1: Proposed treatment of supplies under the GST (continued)**

<b>Service</b>	<b>GST Treatment</b>	<b>RITC eligible</b>
As principal, purchasing or selling a loan	Input taxed	
<b>Asset based finance</b>		
Hire purchase Finance charge where separately identified and disclosed to the recipient	Input taxed	
Hire purchase where no separately identified finance charge	Taxable	N
Operating and finance leases	Taxable	N
As agent, arranging a lease or hire purchase	Taxable	Y
<b>Trade Finance</b>		
Letters of credit — provision of credit Interest/discount	Input taxed	
Letters of credit Arranging/collection fees Fees for credit risk protection	Taxable	N
Export credit loans Interest Service charges	Input taxed	
Trade finance processing Transaction processing and recording Remittance services	Taxable	Y
<b>Inventory/receivables Finance</b>		
Factoring — provision of credit/assignment or purchase of book debts Interest/discount	Input taxed	
Factoring Arranging/collection fees Fees for credit risk protection Collateral asset valuation Fees for sales accounting services	Taxable	N
<b>Capital markets/financial instruments</b>		
Foreign exchange contracts		
As principal, contracting to sell an amount of one currency for another on a specified delivery date at a price agreed at the outset	Input taxed	
As agent, arranging a foreign exchange contract	Taxable	Y
Financial futures contracts		
As principal, selling a financial futures contract	Input taxed	
As agent, arranging the sale of a financial futures contract	Taxable	Y

**Table 1: Proposed treatment of supplies under the GST (continued)**

Service	GST Treatment	RITC eligible
Commodity futures contracts		
As principal, selling a commodity futures contract	Input taxed	
As agent, arranging the sale of a commodity futures contract	Taxable	Y
Commodity forward contracts		
As principal, selling a deliverable contract	Taxable	N
As agent, arranging for the sale of a deliverable contract	Taxable	Y
As principal, selling a non-deliverable contract	Input taxed	
As agent, arranging for the sale of a non-deliverable contract	Taxable	Y
Forward rate agreements		
Contracting as one of the counterparties to a forward rate agreement	Input taxed	
As agent, arranging a forward rate agreement	Taxable	Y
Interest rate swaps		
Contracting as one of the counterparties to an interest rate swap agreement	Input taxed	
As agent, arranging an interest rate swap agreement	Taxable	Y
Currency swaps		
Contracting as one of the counterparties to a currency swap	Input taxed	
As agent, arranging a currency swap	Taxable	Y
Commodity swaps		
Contracting as one of the counterparties to a commodity swap	Input taxed	
As agent, arranging a commodity swap	Taxable	Y
Financial options		
Sale of a financial option, as principal	Input taxed	
As agent, arranging for the purchase or sale of an option	Taxable	Y
Interest rate caps, floors or collars		
As principal, granting or selling an interest rate cap, floor or collar	Input taxed	
Acting as an agent in respect of an interest rate cap, floor or collar	Taxable	Y
Securities/Foreign Exchange/Derivative trading		

Service	GST Treatment	RITC eligible
Transaction processing, account maintenance and report generation services provided to traders	Taxable	Y

**Table 1: Proposed treatment of supplies under the GST (continued)**

Service	GST Treatment	RITC eligible
<b>Trading system and clearing and settling services</b>		
Stock exchange services Fees for rights of access to or rights to use: <ul style="list-style-type: none"> <li>◆ A system for the trading of quoted securities; or</li> <li>◆ Facilities for clearing and settling transactions that result from trading in quoted securities in that system</li> </ul>	Taxable	N
Futures exchange services Fees for rights of access to or rights to use: <ul style="list-style-type: none"> <li>◆ A trading system that has been approved or deemed to have been approved under section 1126 of the Corporations Law; or</li> <li>◆ Clearing house facilities provided by a person that has been approved or deemed to have been approved under section 1131 of the Corporations Law</li> </ul>	Taxable	N
<b>Funds management</b>		
Unit trusts Capital contributions	Input taxed	
Investment portfolio management Fees or commission for managing a client's asset portfolio Fees charged to a superannuation entity or trustee for managing the entity's investment portfolio Fees or commission for acting as a trustee of a trust or superannuation entity that owns the portfolio Fees for acting as a single responsible entity	Taxable	Y
Investment portfolio administration Fees charged to the owner of the portfolio	Taxable	Y
<b>Superannuation</b>		
Creation of a right or interest under a superannuation fund, approved deposit fund or pooled superannuation trust Contributed capital and related fees	Input taxed	
Superannuation fund administration Fees for acting as a trustee of a superannuation entity Fees charged to a superannuation entity or trustee for maintaining member records and associated accounting Fees charged to a superannuation entity or trustee for the payment of benefits or the	Taxable	Y

Service	GST Treatment	RITC eligible
processing of member contributions Fees charged to a superannuation entity or trustee for transfers between funds		
<b>Insurance</b>		
General insurance Insurance or guarantee of any kind against loss, damage, injury or risk of any kind	Taxable	N

**Table 1: Proposed treatment of supplies under the GST (continued)**

Service	GST Treatment	RITC eligible
Life insurance		
Premiums for investment and death and permanent disability cover components (and other risk components below a <i>de minimus</i> threshold)	Input taxed	
Premiums for risk cover (not including death and permanent disability cover)	Taxable	N
Brokerage		
Fees for arranging a sale of general and/or life insurance	Taxable	Y
Life insurance administration		
Fees charged to a life insurer for maintaining policyholder records and associated accounting	Taxable	Y
Fees charged to a life insurer for processing premiums and the payment of benefits		
<b>Annuities and pensions</b>		
Annuities and pensions		
Contributed capital and related fees	Input taxed	
<b>Financial advisory services</b>		
Financial planning		
Fees or commissions	Taxable	Y
Taxation advice, including preparation of returns	Taxable	N
<b>Trustee/custodial services</b>		
Core custody services, including		
Clean payments — movement of cash without purchase, sale or transfer of assets	Taxable	Y
Settling and undertaking of securities transactions (as agent)		Y
Collecting income and other payments		Y
Registration of interests and rights		Y
Proxy voting		Y
Exercising of options and warrants		Y
Safe custody of cash or documents		N
Opening and maintaining bank accounts		Y
Master custody services, including		
Maintenance of accounting records	Taxable	Y
Taxation reporting		
Mandate monitoring		
Trade execution monitoring		
Portfolio performance analysis		
Risk management reporting		
Single responsible entity services	Taxable	Y
Trustee services	Taxable	Y

Service	GST Treatment	RITC eligible
Fees for acting as trustee of a trust or superannuation entity Fees for acting as trustee of a settlement, or will trust under deeds of covenant, marriage (or other) settlements		

## Reduced Input Tax Credits

Division 70 of the GST Act provides for a reduced input tax credit to apply to the purchase of qualifying services used to make financial supplies. This provision has found broad support within the financial services industry.

### The self-supply bias

Input taxing financial supplies means that financial service providers have an insourcing — or self-supply — bias for business inputs used to make financial supplies. For example, if a financial service provider insources its accounting services, these services would not be subject to GST. However, if the financial service provider outsources these services, in the absence of special rules, GST would be payable on the full value of that service and the financial service provider would not be entitled to an input tax credit.

A higher effective tax burden would be faced by smaller financial supply providers who outsource proportionately more of their business inputs. Larger market participants generally have a greater ability to insource services. For example, smaller financial service providers, such as credit unions or building societies, would have less scope to insource mortgage valuation services than would a large bank. Therefore, input taxing financial supplies has important implications for the relative competitiveness of different segments of the financial sector.

### The reduced input tax credit

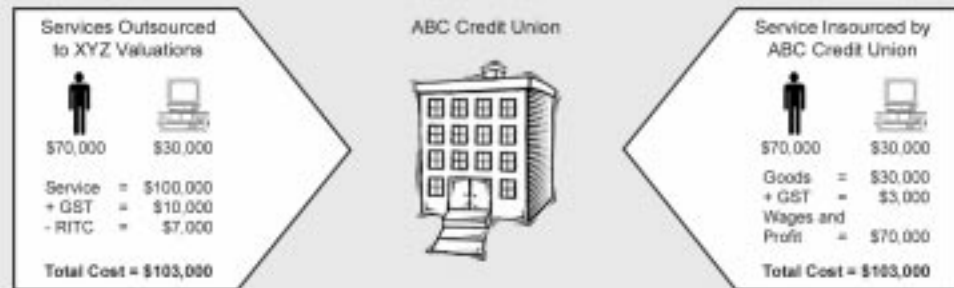
The reduced input tax credit has been introduced to address the potential bias to insource particular services.

Therefore, the size of the reduced input tax credit should be calculated by reference to the value added by the last supplier of a service into a financial service provider. The reduced input tax credit reimburses the purchaser for the GST effectively applied to the wages and profits of the supplying firm.

The reduced input tax credit means that a financial institution will not face a tax incentive to insource a service. Moreover, allowing a reduced input tax credit results in the same tax effect as would be the case if the service being provided was input taxed rather than taxed. The numerical example in **Box 1** illustrates this point.

## Box 1

### How the reduced input tax credit removes the bias to insource



Take an example where ABC Credit Union needs to purchase or undertake mortgage valuations in order to provide home loans. ABC Credit Union can either undertake the valuation in-house, or they can contract with XYZ Valuations. Both ABC Credit Union and XYZ Valuations have identical cost structures.

If ABC Credit Union outsources the mortgage valuation:

XYZ Valuations can provide a service by purchasing a computer and other equipment for a GST-inclusive price of \$33,000;

As XYZ Valuations is a taxable business they are entitled to an input tax credit of \$3,000;

XYZ Valuations then adds \$70,000 of value (which comprises \$50,000 of labour costs and \$20,000 of profit);

XYZ Valuations sells the service to ABC Credit Union for a GST inclusive value of \$110,000;

XYZ Valuations is required to remit \$10,000 of GST to the Australian Taxation Office (ATO);

ABC Credit Union would not normally be entitled to an input tax credit as it is a financial institution that only makes financial supplies;

However, ABC Credit Union is allowed a reduced input tax credit of \$7,000 (which is 70 per cent — the percentage of value added — of the \$10,000 GST on the purchase); and

The total cost of acquiring the mortgage valuation service is **\$103,000**.

If ABC Credit Union insources the mortgage valuation service:

ABC Credit Union will need to purchase the computer and other equipment for a GST-inclusive price of \$33,000.

ABC Credit Union is not entitled to an input tax credit for the \$3,000 GST in the purchase.

ABC Credit Union adds \$70,000 of value within the organisation by employing staff to undertake mortgage valuations.

The total cost of acquiring the mortgage valuation service is **\$103,000**.

## **Making a service taxable and eligible for a reduced input tax credit is equivalent to input taxing the service**

The above example indicates that the tax/reduced input tax credit approach results in a total cost of **\$103,000**.

The total cost would also be \$103,000 if the mortgage valuation service was an input taxed service.

XYZ Valuations would buy the computer and other equipment for \$33,000.

In this case XYZ Valuations would not be entitled to an input tax credit.

XYZ Valuations then adds \$70,000 of value.

The total cost of provision by XYZ Valuations is \$103,000.

No GST is applied to the sale from XYZ Valuations to ABC Credit Union.

Therefore the total cost to XYZ Valuations of acquiring the service is **\$103,000**.

**In effect, the reduced input tax credit returns to the financial service provider the GST that is borne on that portion of the business input that would otherwise be insourced.**

**In other words, a service used as a business input to a financial service provider has the same effective tax rate whether it is produced in-house, or fully taxed but eligible for a reduced input tax credit.**

**Since smaller financial service providers out-source proportionately more of their business inputs, it is expected that they should benefit proportionately more from the reduced input tax credit.**

## **Which inputs will not attract a reduced input tax credit?**

**Reduced input tax credits will not apply to real property or to the lease of goods or real property. Services related to the maintenance of goods or real property will also not attract a reduced input tax credit.**

**Similarly, the reduced input tax credit will not apply to services that are difficult to insource for reasons unrelated to their tax treatment. For example, stock exchange services cannot feasibly be insourced.**

## Joint supplies

Where a supply eligible for a reduced input tax credit is supplied jointly with another type of supply, the value of the supply for which a reduced input tax credit applies needs to be separately identified.

For example, suppose that as part of an outsourcing contract, investment fund management advice is provided with legal advice. For the purchasing financial service provider to be eligible for a reduced input tax credit for the investment fund management advice, the value of this supply (and hence the GST paid), would need to be separately identified.

## Rate(s) of the reduced input tax credit

### How the rate(s) will be calculated?

The rate for the reduced input tax credit for a specific service should equal the percentage of value added at the final stage of the production process. The precise rate of credit required to achieve this result will vary for different services. However, the industry has expressed a preference for a single rate of reduced input tax credit for all eligible services for the purposes of simplicity. The Government is also inclined to support a single rate for the same reasons.

The Government is committed to setting the reduced credit rate at a rate that, on average, correctly reflects the proportion of value added of the outsourced supplier. The Government has no intention to bias the rate downwards for revenue reasons. In setting the rate, the Government intends to err on the side of a higher, rather than a lower rate.

Since those things on the reduced credit list are all services, it is likely that they will all contain a significant proportion of labour costs, indicating a higher reduced credit rate.

The industry has expressed some concern that, even with a generous average rate, significant distortions could remain for individual services. The Government believes that these concerns may be overstated for the following reason. The reduced input tax credit is designed to address a bias to insource. However, the bias to insource only has practical effect when the cost structures of outsourcing and insourcing are similar. In the absence of any reduced input tax credit the bias is only operative if the outsourced supplier has a cost structure (without GST) that is within 10 per cent of the cost structure that would exist if the service were insourced. For example, if before the GST, the outsourced supplier has a 15 per cent lower cost structure, then after the introduction of the GST the outsourced supplier will still have at least a 5 per cent lower cost structure even allowing for the GST.

The introduction of a reduced input tax credit lessens the likelihood that an operative bias will exist. For example, consider the case where the average rate of the reduced input tax credit is set at 70 per cent, but the 'correct' rate for a particular service is 60 per cent. This would leave a bias in favour of outsourcing the service. However, the bias is not operative unless the internal cost structure is within 1 per cent of the cost structure of the outsourced provider.

## Progress to date

The consulting period following the release of this document will allow for the collection and analysis of information from a range of financial sector participants. Examination of industry cost data will enable the calculation of the appropriate reduced input tax credit rate. Some data has already been provided but more complete data is required before a final rate can be determined. The Government intends to consult with the industry about the appropriate methodology for establishing the reduced input tax credit rate

The limited information received to date supports a generalised reduced input tax credit rate of somewhere in the order of 70 per cent. However, the eventual general rate could differ from this, and will depend on the results of further consultation and analysis.

## Possibility of special rates of credit

Some financial sector groups have presented cases to deviate from a generalised rate for a small number of specific products that may have a higher or lower rate of value added at the final stage. However, other financial sector participants have expressed a preference to have only a single rate of reduced credit for ease of compliance.

To move from a single reduced credit rate for a particular product, or group of products, the Government would need to be convinced that a generous single average rate is not suitable and that the administrative costs are acceptable.

## Practical operation of the reduced input tax credit

### The legislation and regulations

The detail on both the list of qualifying supplies for a reduced input tax credit, and the rates for which these are eligible, will be contained in regulations under Division 70 of the GST Act.

The qualifying list of services is to be spelt out in the proposed regulation. **Table 1** in this document includes information on which services are eligible for a reduced input tax credit, but not the rates of the credit. For ease of use, a consolidated list of services qualifying for a reduced input tax credit has been provided at **Appendix B**.

### Changes to the operation of the reduced input tax credit

It is expected that the Government will conduct regular reviews of both the list of services qualifying for a reduced input tax credit and applicable rates. Recommendations of the financial sector will be considered in the review process.

Any claims for special rates to be applied to specific services or groups of services will also be assessed in this context.

**Table 2: List of supplies eligible for a reduced input tax credit**

<b>Service</b>
<b>Transaction banking/cash management/savings, cheque or deposit accounts</b>
Audit confirmation of customer's account
As agent, creating, issuing or closing a savings, cheque or deposit account
Agency fees
Processing of account holders' cheque transactions on behalf of account providers
Processing of account information on behalf of account providers
Fees for storage of archives and retrieval services
Fees for statement processing
Fees for bulk mailing of statements
Production and encoding of plastic cards for account providers
Processing debit/credit card applications for card issuer
<b>Payment/funds transfers</b>
EFT and credit/debit card interchange fees
Fees charged by an EFT terminal network owner to a card issuer for access to and use of the terminal network
Processing B-pay transactions on behalf of account providers
EFT and credit/debit card transaction processing
Fees paid by card issuers for the provision of EFT and credit card account data processing
On behalf of card issuers, settling and clearing transactions initiated via
ATMs
EFTPOS
Credit and debit cards
<b>Securities transactions</b>
As agent, arranging the purchase or sale of equity securities
Fees for order placement and trade execution
Fees for settlement of trades
Fees for management of the issue of equity securities, including rights issues and bonus issues
Fees for arranging flotations or privatisations
Fees for arranging mergers and acquisitions
Fees for arranging takeover bids
Underwriting the issue of equity securities
As agent, arranging the purchase or sale of debt securities
Fees for management of the issue of debt securities
Underwriting the issue of debt securities
As agent, arranging the purchase or sale of interests in, or rights to or under a unit trust
Share/unit registry services to asset issuer

**Table 2: List of supplies eligible for a reduced input tax credit (continued)**

<b>Service</b>
<b>Loans</b>
As agent, arranging or managing a loan <ul style="list-style-type: none"> <li>Agency fees</li> <li>Facility fees</li> <li>Mortgage broking fees</li> <li>Fees for arranging syndicated loans</li> <li>Introducer/broker fees</li> </ul>
Audit confirmations
Lenders mortgage insurance premiums
Loan application and processing services to lender <ul style="list-style-type: none"> <li>Loan origination/brokerage fees</li> <li>Fees for settlement/discharge of loan, including document preparation</li> <li>Fees for registration of loan documents</li> <li>Fees for credit reference assessments and credit scoring analysis</li> <li>Fees for valuations provided as part of mortgage application</li> <li>Fees for searches for property title</li> <li>Fees for registration/certification of title</li> <li>Fees for mortgage variations including changes of names</li> <li>Fees for processing (adding/deleting) caveats</li> </ul>
Loan management services to lender <ul style="list-style-type: none"> <li>Fees for processing of repayments</li> <li>Fees for statement preparation</li> <li>Fees for filing/requisitioning of loan file records</li> </ul>
Debt collection services <ul style="list-style-type: none"> <li>Debt recovery fees</li> <li>Litigation fees</li> <li>Fees for lodgement of documents</li> </ul>
<b>Asset based finance</b>
As agent, arranging a lease or hire purchase
<b>Trade finance</b>
Trade finance processing <ul style="list-style-type: none"> <li>Transaction processing and recording</li> <li>Remittance services</li> </ul>
<b>Capital markets/financial instruments</b>
Foreign exchange contracts <ul style="list-style-type: none"> <li>As agent, arranging a foreign exchange contract</li> </ul>
Financial futures contracts <ul style="list-style-type: none"> <li>As agent, arranging the sale of a financial futures contract</li> </ul>
Commodity futures contracts <ul style="list-style-type: none"> <li>As agent, arranging the sale of a commodity futures contract</li> </ul>
Commodity forward contracts <ul style="list-style-type: none"> <li>As agent, arranging for the sale of a deliverable contract</li> </ul>

**Service**

As agent, arranging for the sale of a non-deliverable contract

**Table 2: List of supplies eligible for a reduced input tax credit (continued)**

<b>Service</b>
Forward rate agreements As agent, arranging a forward rate agreement
Interest rate swaps As agent, arranging an interest rate swap agreement
Currency swaps As agent, arranging a currency swap
Commodity swaps As agent, arranging a commodity swap
Options As agent, arranging for the purchase or sale of an option
Interest rate caps, floors or collars Acting as an agent in respect of an interest rate cap, floor or collar
Securities/Foreign Exchange/Derivative trading Transaction processing, account maintenance and report generation services provided to traders
<b>Funds management</b>
Investment portfolio management Fees or commission for managing a client's asset portfolio Fees charged to a superannuation entity or trustee for managing the entity's investment portfolio Fees or commission for acting as a trustee of a trust or superannuation entity that owns the portfolio Fees for acting as a single responsible entity
Investment portfolio administration Fees charged to the owner of the portfolio
<b>Superannuation</b>
Superannuation fund administration Fees for acting as a trustee of a superannuation entity Fees charged to superannuation entity or trustee for maintaining member records and associated accounting Fees charged to superannuation entity or trustee for the payment of benefits or the processing of member contributions Fees charged to superannuation entity or trustee for transfers between funds
<b>Insurance</b>
Brokerage Fees for arranging a sale of general and/or life insurance
Life insurance administration Fees charged to a life insurer for maintaining policyholder records and associated accounting Fees charged to a life insurer for processing premiums and the payment of benefits
<b>Financial advisory services</b>

**Service**

Financial planning

Fees or commissions

**Table 2: List of supplies eligible for a reduced input tax credit (continued)**

Service
<b>Trustee/custodial services</b>
Core custody services, including <ul style="list-style-type: none"><li>Clean payments — movement of cash without purchase, sale or transfer of assets</li><li>Settling and undertaking of securities transactions (as agent)</li><li>Collecting income and other payments</li><li>Registration of interests and rights</li><li>Proxy voting</li><li>Exercising of options and warrants</li><li>Opening and maintaining bank accounts</li><li><b>But not</b> safe custody of cash or documents</li></ul>
Master custody services, including <ul style="list-style-type: none"><li>Maintenance of accounting records</li><li>Taxation reporting</li><li>Mandate monitoring</li><li>Trade execution monitoring</li><li>Portfolio performance analysis</li><li>Risk management reporting</li></ul>
Single responsible entity services
Trustee services <ul style="list-style-type: none"><li>Fees for acting as a trustee of a trust or superannuation entity</li><li>Fees for acting as a trustee of a settlement, or will trust under deeds of covenant, marriage (or other) settlements</li></ul>