

**GOODS & SERVICES TAX (GST)
COMPLIANCE PLAN FOR PUBLIC SECTOR AGENCIES**

Office of Financial Management

**Policy &
Guidelines Paper**

CONTENTS

[Preface](#)

[Executive Summary](#)

[Introduction](#)

[Objectives](#)

[Coverage](#)

[Consultants Panel](#)

[GST Knowledge Base](#)

[Agency Risks](#)

[GST compliance plan for agencies – accountable actions](#)

Phases 1 & 2

Phases 3, 4 & 5

[Notes on GST compliance plan for agencies](#)

Progress Reports

Price Setting

Independent certification of Phases 1 & 2

End of project "certification"

[Communications Strategy](#)

Treasury Internet Site

Information Seminars

Written Material

PREFACE

The *Goods & Services Tax (GST) Compliance Plan for Public Sector Agencies* sets out a process which all agencies, including Government Trading Enterprises, will need to follow to prepare for the introduction of the GST on 1 July 2000.

The purpose of the Plan is to explain what is expected of agencies over the GST implementation period, and to explain how Treasury will assist agencies with their preparations. Treasury will periodically monitor agencies progress against the Plan.

The Plan has been endorsed by the Treasury Executive Board.

The successful completion of GST preparations is essential so that agencies comply with the GST and other tax reform related legislation. Agencies need to make the most of the tax reforms in order to provide the best outcome for public sector finances in NSW.

John Pierce
Secretary
NSW Treasury
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General inquiries concerning this document should be directed to:
James George, Senior Economist and GST Project Manager (Tel: 02 9228 4823, Fax: 02 9228 4041
or E-mail: james.george@mail.treasury.nsw.gov.au) of NSW Treasury.

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EXECUTIVE SUMMARY

The GST will apply from 1 July 2000. The NSW Government and its agencies will be liable to the GST in the same way as the private sector.

Agencies will register with the Australian Taxation Office (ATO), apply GST to prices charged for goods and services (unless specifically exempted), and claim input tax credits on any purchased inputs (where appropriate). It is expected that most agencies will be in a net credit position, where their input tax credits exceed the GST collected.

The GST will result in substantial new administrative requirements for the day to day business of agencies, including the need to issue, collect and retain GST invoices. Although the GST does not commence until 1 July 2000, early planning and follow-up action is needed by agencies to implement the required systems and procedures to comply with the GST.

Agencies are individually responsible for carrying out the necessary planning and compliance activities, including determining which GST registration arrangements best suit them. Treasury will assist and monitor agencies. Treasury assistance will include a series of GST and tax reform seminars (the first of which was held in February) and an internet site providing informative materials.

Treasury will monitor agencies progress against a series of "accountable actions", consistent with the GST Compliance Plan, as follows:

1. Project scoping, planning, and identifying GST issues;
2. Determining agency business changes required and Budget impacts;
3. Project Implementation;
4. Evaluation and Testing; and
5. Post Implementation Compliance Review.

Agency heads are required to provide progress reports to Treasury, which will include a letter of certification that the accountable action has been completed satisfactorily.

Most agencies will require expert assistance, beyond that capable of being provided by Treasury, to prepare for the GST. This will involve agencies engaging consultants. To reduce the cost and duplication of services provided by consultants to agencies, Treasury will conduct a competitive tender on behalf of the NSW public sector to secure more favourable terms from consultants who may assist agencies. Agencies will be notified of the successful firms once the tender process has been completed, and should avoid entering into long term contracts for GST advice until then.

The size of the task ahead to prepare for the GST cannot be underestimated. Appropriate planning and follow-up action is essential. Delays in making progress must be avoided, as the commencement date of the GST on 1 July 2000 is immutable.

INTRODUCTION

The Goods and Services Tax (GST) is a broad based consumption tax which will replace the Commonwealth Government's wholesale sales tax and a number of indirect State taxes. It will apply from 1 July 2000.

The NSW Government will be liable to GST in the same way as the private sector. This will result in substantial new administrative requirements for the day to day business of agencies, including the need to issue, collect and retain GST invoices.

Entities with annual turnover exceeding \$50,000 will be required to:

- register with the Australian Taxation Office;
- determine what goods and services they supply will be subject to GST;
- charge GST on goods and services they supply;
- claim input credits for GST they pay on acquisitions;
- lodge returns with the Australian Taxation Office; and
- calculate and pay GST.

Under the GST legislation, if annual turnover is below \$50,000 you are not required register, but may choose to. If you do not register, you do not charge GST on your supplies, and you are not entitled to input tax credits. Most, if not all, agencies are expected to register.

There will also be a number of transitional issues which will affect contracts entered into well before 1 July 2000.

Although operation of the GST is subject to finalisation and does not commence until 1 July 2000, early planning and follow-up action is needed to implement the required systems and procedures to comply with the GST.

Agencies are individually responsible for carrying out the necessary planning and compliance activities. Treasury will assist and monitor agencies.

OBJECTIVES

The objective is to assist NSW public sector entities in meeting the administrative and practical requirements of the GST. This will be through the provision of advice, assistance and information to facilitate the agencies' development of appropriate systems, procedures and properly trained personnel.

Treasury will monitor agency progress in implementing the necessary changes to comply with the GST legislation.

Specifically, Treasury will provide:

1. A GST Compliance Plan for public sector agencies;
2. Information sessions for agencies about the requirements of the GST legislation and compliance and implementation requirements.
3. GST guides and other materials for agencies.
4. An internet site which contains relevant material, including a GST knowledge base.
5. Periodic monitoring of agency preparation and compliance with the GST Compliance Plan.

COVERAGE

All **Budget Sector agencies** and **Government Trading Enterprises** are required to participate in the GST Compliance Plan, and progress on their GST compliance activities will be monitored by Treasury.

CONSULTANTS PANEL

Most agencies will require expert assistance and advice, beyond that capable of being provided by Treasury, in a range of areas to prepare for the GST. For example, agencies may require assistance on accounting, legal, technical, process, risk management, information technology and input/output price modelling issues. This will involve agencies engaging consultants to assist with their preparations.

To minimise costs and the duplication of services, Treasury, in conjunction with the Department of Public Works and Services, is currently selecting a panel of suitable consultants to assist with the Government's GST compliance and implementation activities. It is anticipated that selection decisions about the panel will be made by mid July. Agencies will be advised of the outcome.

Consultants will no doubt be approaching individual agencies to perform GST related services over the next few months. There is no compulsion for agencies to use the panel suppliers (with the probable exception of price modelling – for reasons of consistency of methodology and results) but there may be clear advantages in terms of government negotiated prices and the administrative savings from not having to go through another selection process.

Agencies may also wish to consider the extent of services they will obtain from Treasury before buying in additional services.

GST KNOWLEDGE BASE

To assist GST compliance within the NSW public sector, Treasury will establish a comprehensive GST knowledge base. The knowledge base will involve, at its core, a repository of GST issues identified by agencies and the suggested resolution applicable to those issues.

To ensure the integrity of the repository, a process will be established whereby agencies submit issues to a "knowledge owner" in Treasury who will review and post issues onto the repository. Agencies, along with Treasury, will be responsible for the creation of the issues and resolution activity. Its success will depend on agency participation.

The benefits of a knowledge base are:

- reduction in the need for agencies to re-learn lessons already addressed by other agencies, providing efficiencies in compliance activities;
- a build-up of GST knowledge within the government sector to assist with compliance as well as ongoing management of the GST;
- increase the likelihood that GST compliance issues are addressed with consistency across agencies; and
- increase the likelihood that agencies will consider the significant issues facing their business.

AGENCY RISKS

If the GST compliance activities across Government are not completed successfully there are the following risks:

- GST returns may not be calculated correctly and lodged on a timely basis with the Australian Taxation Office. This can result in substantial taxation penalties (up to 200% of the tax underpaid).
- Without adequate systems, procedures and staff training, attempting to comply with the GST legislation could result in inefficient use of clerical resources and inadequate results.
- Incorrect calculation and charging of the GST will result in losses to agencies, as liability to pay GST remains even if the tax has not been charged to clients.
- Incorrect classification of supplies that are taxable or non taxable could result in agencies over paying or underpaying tax.
- Risks of over/under-claiming input tax credits: Over-claiming GST credits will be an offence and will reflect poorly on NSW internal administration with potential for public censure or criticism. Under-claiming GST credits would represent a financial risk and possibly result in unnecessary calls on the Budget.
- Pricing under contracts that span the implementation of GST may not be sufficient to recover the GST cost if the GST is not factored in.
- The Australian Competition and Consumer Commission (ACCC) will have statutory authority to formally monitor prices and take legal action against businesses, including government agencies, that take pricing decisions in a manner inconsistent with tax reform. Penalties are as high as \$10 million.

GST COMPLIANCE PLAN FOR AGENCIES

Accountable Action	Tasks required to carry out action
<p>1. Project scoping, planning and identifying GST issues</p> <p><i>This accountable action should be completed by early August 1999. Agency head to report to Treasury by 18 August 1999.</i></p> <p><i>Phase 1 should take between four to eight weeks to complete.</i></p>	<p>Develop project plans (identify goals, objectives and constraints of project):</p> <ul style="list-style-type: none"> - determine and establish project team structure; - identify GST issues faced by the agency; and - establish sub projects as required. <p>Determine project resource requirements.</p> <p>Quantify project risks.</p> <p>Examine GST legislation and its effects on agency inputs and outputs, including calculation of output price adjustments.</p> <p>Establish database of contracts spanning 1 July 2000 and determine GST impact, and communicate contract transitional issues around the agency.</p>
<p>2. Determine agency business changes required and Budget impacts</p> <p><i>This accountable action should be completed by early November 1999. Agency head to report to Treasury by 3 November 1999.</i></p> <p><i>Phase 2 should take between two to three months to complete.</i></p> <p><i>(Budget Sector Agencies only, not GTEs, are to provide budget impact information)</i></p>	<p>Undertake detailed transaction flow analysis.</p> <p>Specify project activities required.</p> <p>Review project plan and resource requirements.</p> <p>Determine registration requirements – what entities/branches within the agency want to register separately.</p> <p>Review existing accounting systems and procedures for accounts receivable and payable, and point of sale systems.</p> <p>Identify tax planning opportunities to minimise the transition cost of GST (e.g. deferral or bringing forward of purchases).</p> <p>Model the price change impacts on input costs, and determine output price adjustments if not already done.</p> <p>Provide Treasury with a price impact statement, based on price modelling.</p> <p>Identify Budget impacts by the provision to Treasury of modifications required to Financial Information Systems (FIS) financial collection disc.</p> <p>Review contract pricing change requirements and contract terms, determine renegotiation needs.</p>
	<p>All agencies are to provide Treasury with independent certification of the reasonableness of their project planning (i.e. Stages 1 & 2)</p>

<p>3. Project Implementation</p> <p><i>This accountable action should be completed by the end of March 2000. Agency head to report to Treasury in two stages:</i></p> <p><i>1. Preliminary report due by 28 January 2000; and</i></p> <p><i>2. Final Report for Stage 3 due by 31 March 2000.</i></p>	<p>Review agency business systems ability to handle GST using a capability checklist to determine possible compliance.</p> <p>Determine revised processes and operating procedures to handle GST.</p> <p>Develop and implement communications plans for clients/customers and suppliers so they know your expectations of them.</p> <p>Develop and implement GST reporting procedures and systems.</p> <p>Document revised operating and system procedures.</p> <p>Conduct staff training.</p> <p>Renegotiate contracts if required to meet GST price changes.</p> <p>Implement process and system changes to handle GST.</p> <p>Review documentation/stationery and amend as necessary (e.g. invoices).</p> <p>Register for GST with the Australian Taxation Office.</p>
<p>4. Evaluation and Testing</p> <p><i>This accountable action should be completed by the end of May 2000. Agency head to report to Treasury by 31 May 2000.</i></p>	<p>Carry out:</p> <ul style="list-style-type: none"> - testing of process changes; and - user testing of system changes. <p>Perform adjustments identified in testing and modify further as required.</p> <p>Staff training completed.</p> <p>Compliance sign-off.</p>
<p>5. Post implementation Compliance review</p> <p><i>This accountable action should be completed by the end of September 2000. Agency head to report to Treasury by 29 September 2000.</i></p>	<p>Ensure ongoing lodgment of GST returns.</p> <p>Manage Cash flow.</p> <p>Maintain required documentation and records.</p> <p>Monitor compliance / performance.</p> <p>Conduct post implementation review of systems.</p>

NOTES ON GST COMPLIANCE PLAN FOR AGENCIES

Progress Reports

The agency head's progress report to Treasury will consist of two parts, as follows:

1. letter of certification that the accountable action has been completed satisfactorily; and
2. a standard report attached to the letter of certification, containing a checklist of the activities that have been carried out or are in progress to ensure GST compliance (the form and content of the report is yet to be determined, but agencies will be advised).

While agency heads' letters will be addressed to the Secretary of the Treasury, they should be marked to Treasury's GST project manager in first instance. Late or poor progress in implementing individual agency GST compliance projects will be dealt with by Treasury using established relationship and evaluation procedures, e.g. the agency's Agency Relationship Manager within Treasury's Resource Allocation Directorate.

Large decentralised agencies such as the Department of Health and the Department of Education and Training will be treated as single entities for reporting purposes, although they ultimately may have more than one GST registration per agency.

The primary purpose of the progress reports is to gain certification by the agency head that the GST compliance project is on track. The secondary purpose of the reports is to provide Treasury with sufficient information to signal actual or potential GST compliance project problems, while not imposing a significant additional reporting burden on agency GST teams.

Price Setting

In setting output prices agencies need to familiarise themselves with the ACCC's GST pricing guidelines and ensure compliance with those guidelines. Agencies whose output prices are set by the Independent Pricing and Regulatory Tribunal (IPART) should contact IPART well in advance of pricing reviews.

Independent Certification of Reasonableness of Phases 1 and 2

Agencies are required to provide Treasury with independent certification of the reasonableness of their project planning actions. The reports from independent firms should be sent to Treasury through agency heads. Treasury will advise the form of these reports.

End of project "certification"

It may be unlikely that audit firms will provide Treasury or other agencies with an opinion that an agency has achieved GST compliance. An alternative to gaining this kind of certification is to carry out an audit to review the reasonableness of the processes followed by an agency in complying with the GST.

COMMUNICATIONS STRATEGY

Treasury internet site

The primary means of communicating the GST Compliance Plan and other information provided by Treasury will be via Treasury's internet site. The internet site will be developed as new information becomes available. Agencies will be notified when the relevant GST section of the site has been established, and how to gain access.

The internet site will include:

- the GST Compliance Plan;
- GST (including Treasury) contact information;
- GST guides prepared by Treasury;
- GST knowledge base using input from Treasury and agencies;
- GST technical information (provided by a commercial supplier); and
- linkages to other useful sites, such as the Australian Taxation Office, Commonwealth Treasury, and the Commonwealth Parliament (useful for legislation), and the ACCC (which contains its guidelines for prices surveillance).

Information Seminars

Treasury has already carried out an initial briefing session about the GST and tax reform for agencies (February 1999).

This will be followed by a further session in late July about the Compliance Plan, what is required by agencies, and how Treasury will assist.

Other information sessions will be provided on a needs basis.

Written Material

While the GST section of the internet site is being prepared, relevant information that is to appear on the site will be sent to agencies in hard copy.