GST

No more FID or stamp duty on quoted marketable securities from 1 July 2001

Financial institutions duty (FID) and stamp duty on quoted marketable securities (SDQMS) are to be abolished from 1 July 2001 as part of the New Tax System. Both of these taxes are State and Territory-based indirect taxes remitted under separate legislation to the appropriate State or Territory revenue bodies.

The Commission's role under part VB of the Trade Practices Act in the transition to the New Tax System includes ensuring that consumers and businesses receive the benefit of the abolition of FID and SDQMS.

Financial institutions duty

FID is a State and Territory Government tax on deposits made into certain accounts with financial institutions (such as banks, credit unions and building societies). These include term deposits, accounts with overdraft facilities, cheque accounts and loan accounts (including credit cards). The tax affects both business and non-business customers.

The FID amount paid is a flat percentage of the deposit amount (generally 0.06 per cent), up to a specified maximum. It can also apply at a daily rate on a defined list of short-term deposits. It exists in all States and Territories except Queensland.

FID is remitted to the State Revenue Offices by the financial institutions. This generally occurs within about one month of a deposit being made to an account. For most transactions financial institutions pass the FID charge on to the account holder.

No more FID charges after 30 June 2001

Deposits made after 30 June 2001 will no longer attract FID. Financial institutions generally pass a FID charge on to the customer when they next credit interest to, or in the case of loan accounts, debit interest from, the account. This means that FID charges will probably still appear on the first account statement received after 30 June 2001 for an account; however, those charges should only relate to deposits made before 1 July.

Statement cycles vary, depending on the financial institution and the type of account, they can be monthly, quarterly or even six-monthly. Statement cycles for term deposits can be even longer, depending on the term. Accordingly some customers may not receive their next statement for some time after 30 June.

The effect on businesses

The payment of FID on deposits will no longer be a cost to businesses from 1 July 2001. FID is generally a small proportion of total business costs; however, businesses should adjust their prices where failure to do so would increase their net dollar margin. Increasing the net dollar margin as a result of the New Tax System changes would contravene the Commission's price exploitation guidelines.

The abolition of FID does not mean the end of taxes on business banking accounts. Debits tax will continue to apply after 30 June 2001. Debits tax is a State and Territory Government tax imposed on withdrawals from accounts with cheque drawing or payment order facilities. It exists in each State and Territory, although rates vary. In Tasmania, it is known as debits duty, and can also be applied to withdrawals from accounts that do not have cheque access.

At this stage, under the Intergovernmental Agreement on Commonwealth–State Financial Arrangements, debits tax is scheduled to be abolished on 1 July 2005 (although this is still to be finally agreed by the Commonwealth and State and Territory Governments).

Leases, rentals and hire purchase

FID is also passed on by some other types of businesses, when they act as payment intermediaries. For example, real estate agents incur FID when they receive rental payments, and generally pass these amounts on to landlords. Some car lease companies also pass on the FID incurred on the receipt of instalment payments.

Leases, rentals and hire purchase payments that include FID will need to be adjusted from 1 July 2001. Lenders should advise their customers of adjusted payments.

Similarly, when real estate agents charge management fees to landlords that include a FID component, FID will need to be removed from those fees from 1 July 2001, and the management fee adjusted accordingly. Car leasing companies will need to go through the same fee adjustment process if appropriate.

Customers with queries about their accounts should speak to their financial institution, real estate agent or car leasing company in the first instance.

Businesses that have a practice of passing on FID charges to any of their customers will need to ensure their systems are adjusted so that they no longer do this from 1 July 2001. If FID charges were previously included in a management-type fee charged to customers, the FID component should be eliminated, and customers informed to avoid confusion.

Stamp duty on quoted marketable securities

Stamp duty will no longer apply to transfers of quoted marketable securities from 1 July 2001.

A marketable security is an investment in a company or in government debt that can be traded on the financial markets, producing an income for the investor. Securities include company shares that pay dividends and units in public unit trust schemes.

Stamp duty on quoted marketable securities (SDQMS) is levied on the turnover (being the sale price multiplied by the quantity traded) at the time of the transfer of marketable securities quoted on the Australian Stock Exchange (ASX) or another recognised stock exchange (i.e. listed securities).

This does not include transfers of marketable securities in private companies and trusts, or in public companies and trusts where the securities are not quoted on the ASX or another recognised stock exchange (i.e. 'non-listed' securities. These securities are charged stamp duty at a higher rate).

In all States the total duty payable on the transfer of a 'listed' security is 0.3 per cent of the value of shares traded. This duty applies to transfers both 'on-market' (i.e. transfers made via a broker) and 'off-market' (i.e. transfers made without the use of a broker). The seller and the purchaser each pay half of this amount (i.e. 0.15 per cent each), with the seller's broker collecting the seller's portion and the buyer's broker collecting the other half. Brokers collect the tax on behalf of the relevant State revenue body and remit the duty by monthly return.

The duty is payable to the State revenue body by the broker in the State where the trade in the securities is effected.

Most Australians are members of superannuation trusts or managed funds and therefore pay SDQMS indirectly. This is because the superannuation trust manager or fund manager pays the duty on behalf of its members. This duty is usually passed on to members in the form of an administrative fee or a marginally lower net return on funds invested. Another large proportion of Australians pay SDQMS directly through their stockbroker every time they buy or sell securities.

The duty is reported to direct investors explicitly on the contract notes relating to the transfer. The duty is reported to indirect investors through the statement of accounts made by the managers of the trust or fund.

Stamp duty will continue to be levied on 'non-listed' transfers of securities if applicable.

Ensuring the benefits

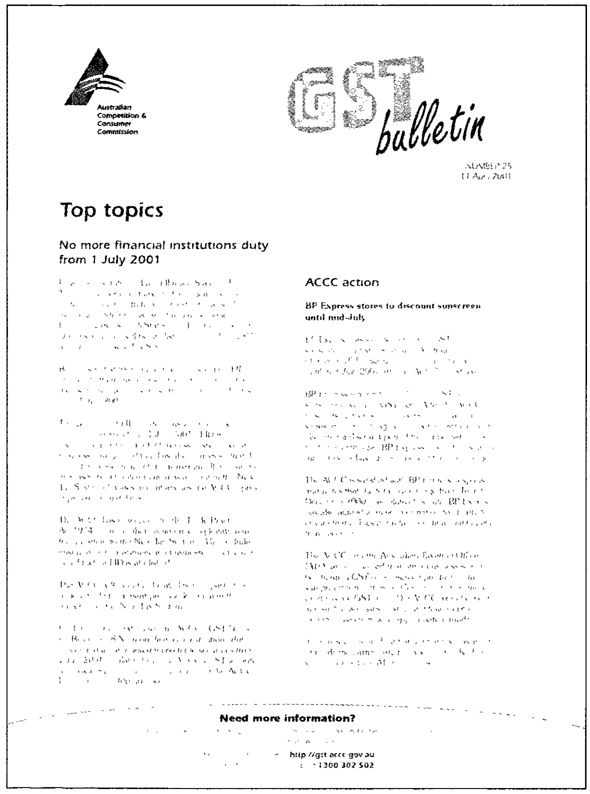
The Commission has powers under the Trade Practices Act to ensure there is no price exploitation in the transition to the New Tax System. This includes ensuring that consumers and businesses receive the benefit of the abolition of FID and SDQMS.

The Commission is monitoring the upcoming abolition, particularly for industry sectors that pass on the duties to consumers, such as banks, credit unions, building societies, finance companies, stockbrokers and real-estate agents.

The Commission has produced the following publications on the abolition of FID and SDQMS to help consumers and businesses.

- News For Business 18 — No more financial institutions duty or stamp duty on quoted marketable securities from1 July 2001.
- GST Talk 10 — The end of financial institutions duty payments on your deposits from 1 July 2001.
- GST Talk 11 — Investors will no longer pay stamp duty on quoted marketable securities from 1 July 2001.
- GST Bulletin No 25 — 11 April 2001 (which includes general information about the abolition of FID, among other topics).

These can be downloaded from the Commission's GST website at <gst.accc.gov.au> or hard copies obtained by contacting Celia Himmelreich on (03) 9290 1973.



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