

Australia Post & The New Tax System



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Australia Post is one of the country's largest and most successful Government Business Enterprises. It provides a range of small and large letter products and services including Express Post, ParcelPost, Print Post, Unaddressed Post, Registered Post, International Post, post office boxes and bags and a range of financial and banking services through its outlets.

Australia Post is committed to acting fairly, honestly and ethically in all its business dealings. The principles, procedures and details by which Australia Post will implement Australia's New Tax System 2000 for the benefit of all Australians are set out in this document.

Meeting our commitments

Australia Post is committed to implementing all aspects of the new tax system fairly, openly and rigorously.

This document formally records our commitment to complying with section VB of *Trade Practices Act 1974*. In particular, it records our commitment:

- not to engage in price exploitation in relation to the new tax system (section 75AU);
- to fully comply with the Australian Competition and Consumer Commission (ACCC) New Tax System Price Exploitation Guidelines (section 75AV); and
- to assist the ACCC in its price monitoring role (section 75AY).

It is also a formal statement of our commitment to:

- passing to consumers all benefits of the new tax system changes to which they are entitled;
- implementing a comprehensive communication program on tax reform for Australia Post's customers, business partners and stakeholders, including displaying GST-inclusive prices in a way that is not deceptive or misleading; and
- maintaining a structured compliance and reporting system.

Australia's new tax system will mean major changes in the way Australia Post does business and variation in the prices of most of our products and services.

Price of 45c letter unchanged

Important aspects of our new prices include:

- the price of the 45c letter and the 40c seasonal greeting card will remain unchanged after the introduction of the new tax system, as Australia Post will pay the GST and absorb all new tax system related implementation and compliance costs on these postal items; and
- business customers entitled to input tax credits will, as a result, benefit from an effective 4.1c (9.1%) reduction in the cost of the 45c letter from 1 July 2000.

International prices GST-free

The GST will not apply to international stamps or labels, with the result that most international mail prices will remain the same and some will fall.

Overall savings effect

In all, Australia Post estimates that customers will enjoy savings of more than \$92 million in the first year of the new tax system.¹

GST price changes

The price of other Australia Post products and services will change by varying amounts due to the new tax system.

For example:

- Express Post charges for domestic addresses will increase by between 8.2% (500g parcel) and 9.5% (B4-size envelopes);
- parcel charges will increase by an average of 9.4%;

- prepaid standard envelopes will fall by up to 2.2%, but larger C5-size envelopes will increase by 8.2%;
- post office boxes and bags will increase by 8.8%; and
- large ordinary letters will increase in price by between 8.9% and 9.8%.

If taken in aggregate and including the 45c standard letter (which will not rise in price) the weighted overall increase in prices for mail products is 4.89%.

If taken in aggregate and not including the 45c standard letter, the weighted overall increase in prices for mail products is 6.34%.

Impact on customers

The impact of price changes on Australia Post customers will depend on the rate and nature of their postal usage.

We have calculated, for example, that a family using a 'basket' of common postal services might spend \$61.19 over one year under the old system. With the prices we propose to apply, the cost will be \$62.29 – an increase of \$1.10 or 1.8%.

We have also calculated that a small business using a 'basket' of Australia Post products and services might spend \$345.04 over one year under the old system. Under the new system these same products and services will cost \$354.56 – an increase of 2.7%.

However, as most businesses will be eligible for GST input tax credits, their total cost will fall to \$322.91 – a reduction of 6.4%.

Calculating Australia Post's new prices

Australia Post is committed to ensuring that all price variations which arise out of the implementation of the new tax system reflect a fair interpretation and application of relevant tax system pricing guidelines.

Australia Post's new tax system prices have been calculated following a rigorous, professional examination of:

- Australia Post's existing prices and profit margins;
- the amount of existing taxes to be abolished which are inherent in them;
- the amount of supplier-initiated tax reduction (or 'claw-back') that can be identified;
- costs of implementing the new tax system;
- the policy adopted by the Federal Government;
- the GST legislation;
- arrangements set out by the Australian Taxation Office; and
- guidelines published by the ACCC.

The percentage change in the prices of individual Australia Post products and services will vary, but all our new tax system price changes have and will be reached after following these steps:

- deducting the current dollar profit margin from the prices we charge now;
- identifying and removing all taxes that are included in the prices we charge now and which are being abolished or restructured (i.e. 'embedded' taxes), along with savings passed on from suppliers and any compliance cost reductions which result from tax system changes;

- adding implementation and compliance costs – where those costs are directly attributable to the introduction of the new tax system and reasonably incurred;
- adding back the original dollar profit margin; then
- adding the 10% Goods and Services Tax.

No profit rise

In following these steps, Australia Post is committed to not increasing the net dollar margin on any of its products.

While Australia Post has absorbed the GST on the 45c letter and the 40c seasonal greetings card, none of these costs has been apportioned or allocated to any other Australia Post product or service, or included in any calculation of new tax system compliance costs.

Cost savings

Australia Post is confident that it will benefit from direct cost savings as both an immediate and as a longer term consequence of the new tax system changes.

Australia Post will experience savings as a result of cost reductions in the areas of:

- motor vehicles and diesel;
- road freight transport;
- computers and business machines; and
- printing services.

Comprehensive economic modelling by external consultants indicates that Australia Post will experience, on average, a maximum potential 1.0% reduction in costs in the first full year of the new tax system. This is substantially less as a percentage than the

overall communications sector, due to Post's high labour expense component of total costs, which is unaffected by the new tax system.

Australia Post is committed to passing the full benefit of these savings through to its customers at the earliest possible time.

Accordingly, all of Australia Post's pricing decisions will be based upon an assumption that anticipated savings will be realised and are capable of being fully reflected in prices from 1 July 2000.

Suppliers' savings

Australia Post recognises its obligation to identify all possible benefits from the new tax system and to pass these directly to its customers.

Australia Post has written to all its major suppliers (those 1500 suppliers having business with Australia Post over the past two years worth more than \$50,000).

It has reminded them of their obligation to identify all new tax system savings that can be passed on for the benefit of customers. Management systems are in place to pursue responses to, and action on, Australia Post's requests. A database has been established and Australia Post will follow-up with individual companies where potential savings have been identified.

All of Australia Post's remaining suppliers, approximately 9000, will be contacted by Australia Post by early April 2000.

Compliance costs

Australia Post has undertaken a detailed analysis of anticipated additional implementation and compliance costs, which will arise as a direct result of the introduction of the new tax system.

Although these additional costs are expected to have a significant impact upon Australia Post, their potential impact on consumers will be lessened, due to the fact that:

- in addition to paying the GST on the 45c letter and the 40c seasonal greeting card, Australia Post will also absorb all new tax system related implementation and compliance costs on these postal items; and
- for many other products and services, Australia Post has decided to absorb a considerable proportion of the new tax system implementation and compliance costs that might otherwise have been factored in to Australia Post's revised prices.

Where additional compliance and implementation costs have not been capable of being absorbed and are to be reflected in pricing decisions, Australia Post has taken steps to ensure that only those reasonably incurred net additional compliance costs will be taken into account.

Australia Post has also sought to take account of any compliance and implementation cost savings which will flow from the removal or reduction of existing taxes, as a component of the new tax system.

Australia Post's taxation reform program

Specialised team

To meet its new tax system objectives and commitments, Australia Post has created a specialised Taxation Reform Group (TRG) within its national administration.

The Australia Post TRG is directly accountable for the assessment, design and implementation of all systems, processes, initiatives and changes required to demonstrate Australia Post's compliance with the Government's tax reform legislation.

The Australia Post TRG is managed by a senior Australia Post executive with extensive experience in all facets of the Corporation's business activities including product costing and pricing.

Australia Post has some 100 people in its TRG, including experts in compliance, product pricing, strategic planning, contracts, legislative interpretation, project management, quality assurance, information technology systems, taxation law, training and communications. The TRG reports regularly to a steering committee of senior executives, the Australia Post Board and the Postal Services Consultative Council.

Independent economic consultants, Econtech, were also engaged, specifically to determine the effect of the new tax system on Australia Post's existing cost structures.

Extensive impacts

The scope and size of Australia Post's tax reform operation is substantial and can be gauged by the following achievements:

- 70 major computer systems have been made tax compliant;
- 51,000 contracts have been examined;
- thousands of products and services have been examined and repriced;
- corporate business processes have been reviewed; and
- 30,000 staff and postal Licensees are being trained.

Australia Post's commitment to customers and partners

Australia Post is committed to immediately passing on, to both business and private customers, the full amount of any and all benefits anticipated to arise under the new tax system. In setting all prices, Australia Post will:

- comply fully with New Tax System Price Exploitation Guidelines issued by the ACCC; and
- maintain its existing practice of full and complete disclosure of price-related information that is relevant to the ACCC's statutory surveillance of certain Australia Post prices.

Australia Post has undertaken a program of identifying and analysing the impact of the new tax system on our business partners and postal Licensees and initiated a series of measures to help them implement the tax system changes. These will lessen compliance costs.

Business customers

Australia Post is aligning its tax invoicing procedures with the commercial practices of our larger corporate clients. Around 65,000 nationally registered corporate account customers will receive Consolidated Tax Invoicing. This will provide them with one valid tax invoice for all purchases of Australia Post services and products.

Licensed Post Offices and mail contractors

Australia Post is undertaking a number of programs to assist its Licensed Post Offices implement the new tax system. Under the new system, Licensees would normally be obliged to provide Australia Post with valid tax invoices showing the amount of GST owed

to them on their Australia Post payments and commissions. To assist in this task (and help guarantee timely payments) Australia Post is implementing a system of 'recipient-created' invoices on their behalf.

Australia Post is also running a comprehensive educational program of seminars, newsletters, information kits and videos for Licensees, who operate more than 75% of Australia's postal outlets.

'Recipient-created' invoices will also be produced for Australia Post's 5200 mail contractors, who provide delivery services in some outer metropolitan fringes and rural and remote areas. Special information programs have also been developed for mail contractors about how the new tax system will affect them and the preparations they need to make.

Advertising and price display

As has occurred with price changes in the past, Australia Post will advise customers of its new prices in a way that is clear and straightforward and conforms to ACCC prescriptions. When prices are displayed in retail outlets after 1 July 2000 they will be GST-inclusive.

Should Australia Post display dual ticketing in the period leading up to 1 July 2000, or provide specific price lists to business customers, it will abide by ACCC guidelines. Australia Post is committed to full compliance with ACCC pricing guidelines on rounding.

Established Australia Post policy requires that all relevant external advertising and marketing communications on behalf of the Corporation be independently reviewed by the Corporation's legal unit to ensure legislative compliance.

Communications with customers

Australia Post is producing a range of communication materials to ensure that information about the new tax system is available to its customers and the general public. The Australia Post website as well as conventional communications channels will be used.

Australia Post maintains a network of customer call centres in all States and Territories. These centres are widely advertised in telephone directories and are well patronised by Australia Post's customer base.

Special call centre training and scripts have been developed to ensure staff can answer tax reform queries from a range of customers. Scripts will be updated regularly. All staff at Australia Post retail and business outlets have access to these call centres and have received information on how to handle customer questions.

The complaint management stream of Australia Post's customer management system is modelled on Australian Standard 4269. Australia Post played a significant role in the creation of that standard.

Staff training

A comprehensive training program is underway to ensure all affected Australia Post staff are informed and aware of the new tax system. The specialised and highly targeted program is based on a 'train-the-trainer' model. Twelve core training streams have been identified, including those dealing with financial transactions, purchasing, employee transactions and reporting.

Post has developed an extensive internal communications program for all staff, Licensees, community postal agencies, community mail agencies and mail contractors. This includes videos, comprehensive information kits, monthly newsletters, an Intranet site and help desks.

Ongoing compliance and reporting

Compliance

Australia Post undertakes that its measures to implement the new tax system on the fairest possible terms will be rigorously applied on an ongoing and consistent basis.

The work of the Tax Reform Group will continue after 1 July 2000. It will continue to be managed by an experienced senior executive. It will continue to monitor the systems and frameworks that have been

put in place and assess, design and implement new solutions and systems for issues and situations as they occur.

Australia Post will ensure that future cost reductions flowing through as a result of the new tax system will be identified wherever possible and monitored on a regular and ongoing basis. While Australia Post new tax pricing proposals have anticipated an appropriate level of savings, if additional

savings eventuate this will be reflected in future pricing decisions, if and when they occur.

Australia Post will continue to identify where its implementation program might be strengthened, evaluate the effectiveness of training and identify further training programs as required.

Reporting

Australia Post is accustomed to a system of regular reporting, disclosure to, and discussion with, pricing regulators. As an integral part of its commitment to openness and accountability in all price-related matters, Australia Post will continue to provide relevant information and advice to the ACCC on the way in which it is implementing and complying with the new tax system.

Australia Post views its tax system commitments as being important business commitments that will be subjected to regular and ongoing review, appropriate compliance audit by Australia Post's internal Taxation and Audit Groups and to management monitoring.

As long as the ACCC continues its responsibilities for overseeing prices under the new tax system, Australia Post is committed to providing it with regular (six-monthly) reviews and reports embracing the relevant results from its internal audit and reporting systems. Australia Post nominates its Chief Finance Officer as the primary contact point for such liaison.

In the event that any significant price increases were to be proposed in the intervals between scheduled six-monthly reviews and reports, Australia Post will consult with the ACCC in relation to pricing proposals prior to their implementation.

Complaints handling

Australia Post is confident that its existing systems and commitment to consult extensively with the ACCC before introducing any price changes will ensure that its prices are defensible and legitimate complaints are kept to a minimum.

Australia Post acknowledges, however, that it has ongoing responsibilities to assist the ACCC to respond accurately and appropriately to queries and concerns raised by consumers, where Australia Post products, services or prices are involved.

Australia Post is committed to dealing expeditiously with complaints and issues arising from the new tax system. Australia Post will identify and make available the appropriate resources for the speedy resolution of consumer issues notified at first instance to the ACCC and will work co-operatively with the ACCC for a mutually satisfactory resolution of these consumer issues.

Australia Post will also ensure that consumer queries are managed in accordance with the relevant Australian Standard.



G. T. John

Managing Director, Australia Post
Melbourne, 17 May 2000

