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***THE ACCC'S ROLE IN PREVENTING PRICE EXPLOITATION
IN RELATION TO THE NEW TAX SYSTEM CHANGES***

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1. INTRODUCTION

In June this year, the Government passed legislation to reform fundamentally our existing taxation system. Key elements of the reform include significant reductions in personal income taxes, the introduction of a broad based consumption tax and the removal of a number of indirect taxes including the Wholesale Sales Tax.

The reforms seek to improve the efficiency and equity of the tax system. They aim to provide enhanced incentives for businesses and individuals and to increase the competitiveness of exports. Improvements in productivity and economic growth resulting from the changes will assist in achieving sustained reductions in unemployment. In this sense the end objectives of the tax changes are not dissimilar to the stated objectives of National Competition Policy.

The changes to the tax system will have a significant impact on prices. Some products, which have been taxed at rates of up to 32 per cent at the wholesale level, will be taxed only at a 10 per cent rate at the retail level after 1 July 2000. Some items, especially services, will be taxed for the first time. Essential items like basic foods, charities and of particular interest to you, educational services, will be GST-free. Others such as financial services and residential rents will be input taxed. Whilst the Goods and Services Tax (GST) will apply quite broadly, generally prices should not rise by 10 per cent, as some people seem to assume. There will often be offsetting tax reductions or indirect cost reductions that will offset, at least to some extent, the effect of the GST. Overall, some prices will rise, some will fall and some will remain around the same level.

One of the Government's primary concerns is to minimise the overall impact of the tax changes on the level of prices. The Government also recognises that there are concerns in the community that businesses may take advantage of the tax changes to increase prices beyond that justified by the tax changes alone. The Government has strongly expressed the view that consumers should not be disadvantaged by the changes. Prices should reflect reductions in indirect taxes where these occur and consumers should not be exposed to greater than necessary price rises¹.

The Australian Competition and Consumer Commission (the Commission) considers that well informed, competitive markets operating in a climate of low inflation and good corporate citizenship will generally ensure that the vast majority of businesses do not exploit the opportunity provided by the tax changes to increase margins. However, these forces may not always be present in a market and in these circumstances some oversight can be helpful. High-risk areas, in particular, include highly concentrated markets with significant barriers to entry where consumers have few choices of supplier, and markets where demand is very inelastic (unresponsive to price changes).² Regional markets often have these characteristics.

Community perception also is that some active market intervention by the Government is necessary to ensure adequate consumer protection during the transition to the New Tax System. This has been accepted by all the major political parties. In line with this, the Government has introduced a temporary prices oversight regime which is being administered

¹ Australia, Commonwealth Treasury, *Tax Reform: not a new tax, a new tax system*, AGPS, Canberra, August 1998

² There is an extensive economics literature which discusses the incidence of indirect taxes and highlights factors likely to affect the pass through of tax changes to consumers.

by the Commission. This is based around new provisions (Part VB) to the *Trade Practices Act 1974* (the Act) which prohibit price exploitation in relation to the tax changes.

Where other economies have made major changes to indirect taxation regimes, some form of direct oversight of pricing has generally been implemented. This has ranged from rigid price controls in the UK, when the Value Added Tax was introduced, to monitoring with an emphasis on promoting consumer awareness in Canada when the Goods and Services Tax was introduced. New Zealand chose not to intervene in pricing, no doubt partly related to its dramatic shift away from direct market intervention more generally at the time. Experience tends to suggest that economies that monitored prices and conducted a communication campaign about price movements not only had a smoother transition to their new tax regimes, but also benefited in terms of inflation impact³.

2. THE TRADE PRACTICES ACT AMENDMENTS

The New Tax System (Trade Practices Amendment) Act 1999 was passed by Parliament in June in conjunction with the tax reform bills. *The New Tax System Act 1999* inserts a new Part VB into the *Trade Practices Act 1974*, relating to price exploitation in relation to the New Tax System changes.⁴

Price exploitation occurs if the price for a good or service is unreasonably high, having regard to the New Tax System changes alone (so far as they have taken effect) and other matters, including suppliers' costs, supply and demand conditions and any other relevant matter⁵. The term 'unreasonably high' is not defined in the Act. However, the legislation (section 75AV) requires the Commission to issue Guidelines about when prices will be regarded as unreasonably high⁶.

³ Tait A. A., *Value Added Tax: International Practice and Problems*, International Monetary Fund, Washington, D.C., 1988, Chapter 10

⁴ These tax changes include a reduction in the Wholesale Sales Tax (WST) rate from 32 per cent to 22 per cent (29 July 1999); changes to excise on cigarettes (1 November 1999); introduction of the GST, abolition of WST, changes to excise on petrol and diesel and to the Diesel Fuel Rebate Scheme, changes to excise on alcoholic beverages, introduction of a 'Luxury Car Tax'; abolition of bed taxes (1 July 2000) and abolition of State taxes on bank transactions and stamp duties on business related transactions (date to be determined)..

⁵ Section 75AU of the *Trade Practices Act 1974* states that :

- (1) *A corporation contravenes this section if it engages in price exploitation in relation to the New Tax System changes.*
- (2) *For the purposes of this section, a corporation engages in price exploitation in relation to the New Tax System changes if:*
 - (a) *it makes a regulated supply; and*
 - (b) *the price for the supply is unreasonably high, having regard alone to the New Tax System changes (so far as they have taken effect); and*
 - (c) *the price for the supply is unreasonably high even if the following matters are taken into account:*
 - (i) *the suppliers' costs*
 - (ii) *supply and demand conditions;*
 - (iii) *any other relevant matter.*

Section 75AU relates to corporations. States and Territories have agreed to introduce complementary legislation (by applying A New Tax System Price Exploitation Code) that will ensure full coverage of all businesses covered by the New Tax System changes.

⁶ The terms 'price' and 'supply' are defined widely by the legislation.

The Commission has been given the power under section 75AW to issue a notice to a corporation it considers has contravened the prohibition against price exploitation. In any proceedings for injunction or penalty this notice will constitute *prima facie* evidence that the price charged is unreasonably high.

As an alternative to taking court action, the Commission may accept voluntary undertakings relating to prices and price setting, using its existing powers.

The Commission may also issue a notice under section 75AX to aid in prevention of price exploitation. This notice must specify a maximum price that may be charged for a supply for a specified period, which may extend to the end of the three-year transition period. This notice will be, in effect, a warning to the corporation that a supply above the maximum price specified will constitute price exploitation. The Commission will be able to publish details of this notice as it sees fit and must include particulars relating to notices issued under this section in a quarterly report on its operations under Part VB to the Minister. This report is to be made public.

3. THE GUIDELINES

The Act requires the Commission to formulate Guidelines about what it considers constitutes price exploitation. The Commission must have regard to these Guidelines when considering whether to issue a price exploitation notice or a notice to aid in the prevention of price exploitation; and the Court may have regard to the Guidelines in any proceedings relating to price exploitation under sections 76 and 80. Guidelines provide greater certainty about the administration of the law by the Commission.

Preliminary Draft Guidelines were issued by the Commission for comment in May 1999. Submissions on the Guidelines were received from many organisations and consultations were held. Modified Draft Guidelines issued in July 1999 took into account matters raised in the consultation period⁷.

Whilst the Guidelines have a specific legislative purpose and need to be written accordingly, the Guidelines document also provides an opportunity to inform business and the community about the Commission's role more broadly in relation to the prevention of price exploitation following the New Tax System changes. Hence the Guidelines document is structured in four parts:

- (a) Part 1 contains the Introduction and General Principles;
- (b) Part 2 contains the Price Exploitation Guidelines;
- (c) Part 3 provides information on Price Claims and Price Display; and
- (d) Part 4 provides information on Enforcement and Compliance Issues.

There are three elements to s75AU and these provide the underlying principles on which the Price Exploitation Guidelines in Part 2 are based.

3.1 Is there a regulated supply?

The first test is whether the supply made was a regulated supply as defined in section 75AT of the Act. In practice the vast majority of goods and services supplied by businesses

⁷ The Guidelines are available at www.accc.gov.au.

operating in Australia will be covered by this definition. A regulated supply is one that occurs during the transition period, which extends from 9 July 1999 to 30 June 2002, two years after the introduction of the GST.

3.2 Is the price unreasonably high having regard to the New Tax System changes alone, so far as they have taken effect?

The second element is whether the price of the supply was unreasonably high having regard to the New Tax System changes alone so far as they have taken effect. The general principle adopted is that prices should rise by no more than the net tax increases and should fall to reflect any net tax reduction. Businesses can achieve this pass through simply by maintaining their existing dollar margins.

The simplified examples provided in the Appendix show the application of the dollar margin test in three contexts, first a reduction in WST from 32 per cent to 22 per cent; second, the imposition of a 10 per cent GST; and third, simultaneous removal of WST and imposition of GST.

Implications of the dollar margin rule are that:

- prices should be reduced immediately to pass on the full effect of net tax reductions;
- any increase in price based on the GST should include a full offset for other indirect tax reductions;
- no markup should be applied to the GST component of price; and
- prices should reflect only actual, not anticipated, tax increases.

A dollar margin rule implies that where costs decrease, percentage margins will increase. Conversely, where costs increase percentage margins will decrease. This provides an incentive for businesses to realise input cost decreases where they are available.

The Commission recognises that there will be numerous practical difficulties and issues to be considered by businesses in ensuring compliance with the dollar margin rule. Some issues are addressed in the Guidelines, such as the treatment of product definition and pricing points, and these and others will be able to be addressed in the process of businesses developing public compliance commitments (discussed further below). The Commission was mindful, however, of the desirability of developing a simple rule that could apply to all businesses irrespective of size and ownership.

3.3 Is the price unreasonably high even if supplier's costs, supply and demand conditions and any other relevant matter is taken into account?

The third test in section 75AU is considered to have possible application in the event that prices are adjusted upwards by more than the net dollar tax change or downwards by less than the net dollar tax and cost reduction. It provides for other factors to be considered in assessing price impacts, including suppliers' costs, supply and demand conditions and any other relevant matter.

The Commission acknowledges that businesses should be permitted to recover in their prices unavoidable compliance costs resulting from the New Tax System changes. The Guidelines, therefore, make provision for businesses to recoup incremental compliance costs. These costs should be appropriately amortised and offset by any assistance provided by the Government to meet them.

Reference to suppliers' costs also allows for consideration of any indirect cost savings obtained by businesses from their suppliers whose own input costs were lowered through the pass through of WST reductions. These cost savings are in many cases likely to be quite significant and may outweigh the immediate effects to a business of the tax changes. It will be important for businesses to pressure their suppliers to obtain these savings.

Changes in costs related to the New Tax System changes may affect prices without changing net profit margins. Changes in market demand may, however, allow, or require, businesses to adjust margins.

If margins are observed to change prior to the introduction of the GST in response to forward buying (or deferred buying) by consumers within the transition period, the Commission will closely examine subsequent price changes at the time of the GST introduction and afterwards. The expectation would be that demand anticipation should not have any impact on margins when averaged out over time.

The Commission will consider whether changes in margins claimed to be justified under this third test are consistent with what would be expected to occur in a competitive market. In a competitive market and where demand showed some responsiveness to prices changes, we would expect that suppliers would have difficulty passing on the full amount of any net tax increase, even though the Guidelines do not prevent them from doing so.

In the longer term, beyond the initial period of price adjustment to the tax changes, the degree of market competition will be an important consideration to the assessment of price movements. Where competition is active, businesses are less likely to be able to increase margins to offset any initial dollar pass through.

The Commission's focus in evaluating prices will be on price *changes* not price *levels*. The price exploitation powers are not intended to impose overall profit or price controls. High profitability or inefficiency will not, therefore, be considered reasons for objecting to the pass through of net tax increases. Equally, the tax changes should not be considered an opportunity for businesses to increase profit margins, even where profitability might be considered to be low. Of course, business profitability may be affected by sales and production changes induced by changing relative prices.

The Commission expects that businesses will be able to justify in specific terms any change in prices resulting from the New Tax System changes. Justification should be by reference to the terms of the statutory test and the Guidelines, including consistency with competitive market operation.

4. PRICE CLAIMS AND PRICE DISPLAY

The implementation of the New Tax System Changes will also have an impact on price claims and price display. Businesses should take care in making representations that they comply fully with the Trade Practices Act.

Relevant provisions here include:

- Section 52 which prohibits corporations from engaging in misleading and deceptive conduct;
- Section 53(e) which relates specifically to false or misleading representations with respect to prices; and
- Section 53C, which prohibits representations being made about part of the consideration for the supply of goods or services unless the cash price is also specified.

State Fair Trading laws prohibit misleading and deceptive conduct by persons engaged in trade or commerce. State and Territory Governments are considering whether to transfer powers under Fair Trading legislation to enable the Commission to undertake enforcement action in relation to GST matters.

The Government's intention is that when prices are displayed, they should be GST-inclusive. In other words the GST component in the selling price is not to be added after the sale. There is a desire to avoid the kind of situation that occurs, for example, in the USA where State sales taxes are added at the checkout.

5. SCOPE OF THE COMMISSION'S ACTIVITIES IN RELATION TO THE NEW TAX SYSTEM

The Commission's new role in relation to the New Tax system changes will involve a range of activities, in addition to the preparation of the Guidelines. These include:

- Promoting education and awareness;
- Reviewing Public Compliance Commitments;
- Complaint handling;
- Monitoring; and
- Enforcement, including the issuing of notices.

.5.1 Education and awareness

A major focus in promoting compliance will be on-going communication with both businesses and consumers. The Commission will assist business and consumers to understand their rights and obligations under the new legislation and Guidelines.

A comprehensive education strategy has commenced with a new series of bulletins. 'News for Business' will deal with emerging business issues and 'GST Talk' will address consumer issues.

The Commission is working closely with the Australian Tax Office in the roll-out of their publications and seminars. We are also working with industry associations and other stakeholders to identify opportunities to provide tailored business material. In addition, we will work with industries that are dealing with particular issues to establish compliance strategies that are consistent with the Guidelines. We are developing material that will be targeted specifically at small business to assist them to understand the issues and ensure that they are able to apply the principles to their business and pass through the saving to consumers.

The more informed consumers are about expected price changes, the more likely these changes are to be realised. The Commission will be considering available econometric data on expected price impacts and will determine whether it is appropriate for it to commission further work in this regard. There are difficulties with the use of econometric models, which the Commission is mindful of, however, and would wish to avoid if possible. UK and Canadian experience suggests that there may be benefits in publishing specific price information.

5.2 Public compliance commitments

An innovative strategy being adopted by the Commission is to invite some of Australia's biggest businesses to give a public commitment to the Guidelines. These are intended to be voluntary commitments that are in themselves not enforceable at law. The focus on big

business is deliberate. In many instances big business is able to influence market prices and can provide a lead for smaller businesses. Public compliance commitments will provide an assurance to the community that no unfair advantage will be taken of the New System Tax changes to increase margins.

The Commission encourages businesses to develop effective programs to ensure full compliance with the Guidelines, including appropriate advice to staff and monitoring of performance. In this regard reference is made to Australian Standard 3806 as a guide to good practice.

In conjunction with public compliance commitments the Commission will require appropriate information to be given to it to enable it to assess compliance with the Guidelines. The nature of this information, for example, the extent of product disaggregation, is likely to vary between organisations depending on their circumstances. The potential benefit for businesses is that there will be less uncertainty as to the basis on which the Commission will assess pricing responses, and there will at the outset be some accepted expectation of the size of likely price movements.

Voluntary public commitments and compliance programs will not take the place of enforcement action if circumstances warrant that action. They have the potential, however, to help avoid mis-understandings and improve communications generally between the Commission and businesses. Experience in other areas also is that where effective compliance strategies are adopted, there is a reduced risk of legal action.

A number of companies have recognised the potential benefits of this new approach, including the possible public relations advantages of being early in making a voluntary commitment, and are discussing specific proposals with the Commission. The Commission will have a public register of organisations it deems to have adopted acceptable public commitments.

5.3 Complaints

The Commission aims to provide ready access for consumers to lodge complaints about pricing responses to the New Tax System changes. Complaints to the Commission may provide a trigger for the investigation of pricing or an opportunity to provide advice and, perhaps, to clarify mis-understandings.

Generally the Commission will encourage consumers to seek clarification in the first instance from the businesses concerned. In this regard, all businesses should ensure that they have appropriate complaint handling procedures in place.

The Commission launched its consumer hotline on 14 July. The number is 1300 302 502. The service provides information to consumers and business as well as being an entry point for complainants. We are also handling enquiries and complaints by e-mail through our website at *www.accc.gov.au*

Data gathered will help the Commission quickly to identify possible systemic issues and areas of concern in relation to price exploitation. We received over 1400 calls in the first few weeks of the hot line's operation. The majority of these were in the nature of enquiries, from businesses as well as consumers, rather than complaints.

5.4 Price monitoring

The Commission may under section 75AY monitor prices to assess the general effect of the New Tax System changes during the three year transition period and to assist its consideration of whether price exploitation is occurring or may occur in the future.

Significant information gathering powers have been given to the Commission, in addition to its existing section 155 powers, to facilitate price monitoring. The Commission may by notice require information or documents to be provided to it relating to prices or the setting of prices before or after any of the New Tax System changes have taken effect and before or after the start of the transition period.

The initial focus of monitoring has been on the reduction in the WST rate from 32 per cent to 22 per cent which occurred on 29 July 1999. Surveys were undertaken in 112 cities and regional centres. The information gathered will provide us with benchmarks to assess the movement in prices in response to the tax change. A follow up survey is to be conducted in the near future.

A snap survey conducted the day after the WST reduction showed that of over 3,000 prices checked, 87.4 per cent had been reduced with an average price drop of 7.9 per cent. This, higher than expected figure, reflected the fact that many retailers saw the change as an opportunity to provide additional promotional discounts. A number of the outlets not initially recorded as having reduced prices were in the process of doing so. Follow-ups have indicated that 98 per cent of surveyed prices have now been altered. The remaining cases are being investigated for possible breaches of the price exploitation provisions.

A more comprehensive approach to price monitoring will be undertaken for the 1 July 2000 changeover. The Commission will use the information it collects together with information from consumer groups, industry sectors, economic modelling, industry analysis and any other source that arises. This will provide us with sound base to inform our compliance and enforcement activities.

5.5. Enforcement

The Commission may seek injunctions, penalties and Orders limiting prices or requiring refunds where businesses engage in price exploitation

The Act provides for penalties of up to \$10 million per offence for a body corporate, and up to \$500,000 per offence for a person other than a body corporate, for breaches of the prohibition on price exploitation.

.These penalties apply also to persons who are knowingly concerned in, or aid and abet, a contravention of the Act. Advisers to businesses (including lawyers and accountants) need to be aware that the Act provides no protection for advisers found to be involved in price exploitation in breach of the Act.

The existence of sanctions is essential to the efficient operation of any regulatory system. The penalties applicable to price exploitation are sufficiently large to make any business sit up and take notice. The Commission's reputation as a fair and effective regulator with the will to take action where required adds to that incentive. The Commission will use all the tools available to it to achieve a high level of compliance.

Generally, it could be expected that the Commission will try to address its concerns in consultation with the supplier prior to it launching Court action.

However, where there is evidence of blatant exploitative conduct that cannot be remedied administratively, the Commission will not hesitate to issue a notice in order to address the

consumer detriment and to protect those traders in the market who are willing to behave in a law abiding manner.

6. ISSUES FOR EDUCATIONAL INSTITUTIONS

No doubt you will be keen to explore ways in which you can minimise the effect of any possible price exploitation on your costs under the New Tax System and I shall try to paint the picture in broad terms. By “possible price exploitation” I mean

- (a) failure to pass on the full amount of savings arising from a combination of the abolition of wholesale sales tax and introduction of the goods and services tax; or
- (b) imposition of a price increase greater than the amount of any increase in indirect tax.

First, the GST-free classification of educational services means that GST does not apply to school fees. Your schools are not obliged to pay GST and, therefore, cannot raise fees on that account. The GST-free position also means that if schools pay GST to any supplier of goods or services that they acquire, they are entitled to claim a refund of such tax from the Australian Taxation Office. As suppliers are required to show GST separately on invoices, it will be easy to identify and claim.

Secondly, to minimise their costs of operation, educational institutions should be alert to situations where their costs of goods should go down as a result of the New Tax System. This is the likely result of simultaneous abolition of WST and the imposition of GST on goods. You can establish the current applicable WST on various goods acquired and calculate the effect of its elimination and the impact of GST along the lines of the example 3 in the Appendix to this paper. No WST applies to services and, therefore, no price reduction attributable to that reason is likely.

The removal of taxes on manufacturers and wholesalers should have flow on benefits for educational institutions purchasing their products. It is important, therefore, that educational institutions assess not only the direct impact of the tax changes on their own operations, but also the benefits they should expect to have passed on to them by their suppliers as a result of cost reductions from tax changes they enjoy. These may include reduced capital costs or other input costs arising from the tax changes.

If the prices of certain goods should fall as a result of tax changes and any supplier does not pass such reductions on, or if prices of services or goods not previously subject to WST rise after 1 July 2000 by an amount more than they should as a result of tax changes, you should query your suppliers about the basis for not passing on reductions or for raising prices by that amount. If responses do not justify their pricing decisions, you should bring the matter to our attention.

Finally, any misleading or deceptive representations or conduct in relation to pricing should also be brought to our attention for investigation. As mentioned earlier, this may be the result of incorrect pricing which does not include the GST component chargeable or attributes a higher price than justifiable to the New Tax System changes.

You could also bring any such conduct to the attention of your State or Territory Government fair trading organisation for investigation as it may constitute misleading or deceptive conduct under its laws.

7. CONCLUSION

The Commission’s objective is to foster effective competition and fair trading practices in Australian markets. This puts it in a good position to undertake the task determined by the Government and approved by the Parliament of ensuring that businesses do not take advantage of the New Tax System changes to engage in price exploitation.

Whilst competition will in many cases be the driving force in ensuring the benefits of the reforms pass through to consumers, there are markets, including markets that are already regulated, where competition is not fully effective and some intervention is appropriate.

Information is essential to the efficient operation of markets and a key component of the Commission’s role will be to ensure that all market participants are well informed.

It must also be recognised that the legislation is intended to apply to all markets, not just those perceived not to be effectively competitive.

Our aim is to achieve the highest levels of compliance possible with the legislation. A measure of the success of our strategy may be that there will be no need to undertake enforcement action.

The Commission recognises that many different business sectors will be faced with different challenges as they establish compliance systems for the New Tax System. Therefore, our first approach will be to provide support and assistance. The Commission will, however, vigorously enforce the new law where businesses use the new tax system as a means to exploit consumers.

Ultimately, the Government expects that consumers benefit fully from reductions in tax rates, where that is the effect of the tax changes and are not exposed to greater than necessary price increases. The Commission’s role is essential to achieving this objective and the benefits expected to flow to the community from the New Tax System changes.

7. APPENDIX

Example 1 Reduction of the WST from 32 percent to 22 percent

	Before the change (\$)	After the change (\$)	Percentage change
Wholesaler's price	100.00	100.00	
WST	32.00	22.00	
Cost to retailer	132.00	122.00	(7.58%)
Retailer's markup	13.20	13.20	
Retail price	145.20	135.20	(6.89%)

In this example before the tax change the retailer is assumed to apply a 10 percent markup to the buying cost of the goods to cover operating and selling costs and provide a margin. A full pass through of the tax reduction occurs from the wholesaler to the retailer and from the retailer to the consumer. Because the retail price includes the retailer’s markup, the percentage reduction in retail price (6.89%) is smaller than the percentage reduction in the wholesale tax-inclusive price to the retailer. The retailer's markup and margin is unchanged on the assumption that there are no other cost changes occurring. If, in addition to the tax change, there were other tax related cost changes these would need to be passed through into the price and accommodated by a change in the dollar markup.

Example 2 Introduction of a GST with no other tax changes

	Before the change (\$)	After the change (\$)	Percentage change
Wholesaler's price	100.00	100.00	
GST		10.00	
Cost to retailer	100.00	110.00	
GST input credit		(10.00)	
Retailer's markup	10.00	10.00	
GST		11.00	
Retailer's price	110.00	121.00	10.0%

This example shows the impact of the imposition of a 10 percent GST. The GST is included in the wholesaler's price to the retailer, but the retailer is able to obtain an input tax credit for this. The retailer effectively adds the GST to the buy-in cost of the goods (excluding the wholesalers' GST component, which qualifies as an input tax credit) plus the retailer's margin. There is no margin added to the GST and the retailer's dollar markup is unchanged. On the assumption that there are no other tax related cost changes, the retailer's margin will also be unchanged. This example may typically apply to the supply of services, where no indirect tax has applied in the past, although even here some reduction in operating and selling costs could be likely to occur through the elimination of WST on some purchases.

Example 3 Simultaneous elimination of WST and introduction of the GST

	Before the change (\$)	After the change (\$)	Percentage change
Wholesaler's price	100.00	100.00	
WST	22.00		
GST		10.00	
Cost to retailer	122.00	110.00	
GST input credit		(10.00)	
Retailer's markup	12.20	12.20	
GST		11.22	
Retailer's price	134.20	123.42	(8.03%)

This example assumes that the retailer before the change applied a 10 percent markup to the purchase cost of the good that is taxed at the 22 percent WST rate. The markup is maintained in dollar terms after the tax change. The net tax change ($22.00 - 11.22 = 10.78$) is fully passed on into the final retail price to the customer ($134.20 - 123.42 = 10.78$). The decline in the retail price as a result of replacing the WST with the GST in this case is 8.03 percent.