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## APPLYING GST TO LOW VALUE GOODS IMPORTED BY CONSUMERS

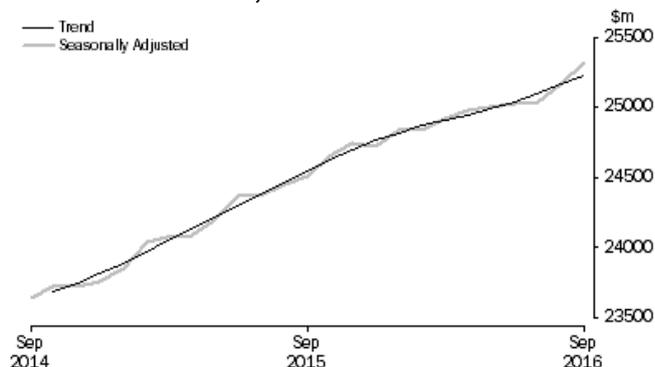
The Australian Retailers Association (ARA) offers support, information, and representation to around 5,500 retailers across the nation, representing more than 50,000 shop fronts. The ARA ensures the long-term viability and position of the retail sector as a leading contributor to Australia's economy.

### Current state of the retail sector

The state of the retail sector has certainly improved, but only slowly and cautiously.

General figures from the Australian Bureau of Statistics (ABS), shows an increase in general retail trade of \$24.5b in September 2015, increasing to \$25.3b in September 2016. This represents an increase of just 3.27% year on year which is a little above inflation of 1.3%.

### RETAIL TURNOVER, Australia



Source: ABS



However, despite the positive news, retailers remain concerned about tough trading conditions.

### Specific recommendations and concerns

The ARA supports the direction outlined in the Exposure Draft of the *Treasury Laws Amendment (2017 Measures no. 1) Bill 2017*.

We agree that "...the fact that neither the supply nor the importation of such low value goods is subject to GST represents a significant risk to the integrity of the GST system. It also places Australian based suppliers at a growing competitive disadvantage."<sup>1</sup>

The ARA has been the lead organisation working with the Federal and State Governments to reduce the low value threshold and provide a level playing field for Australian retailers. We were very pleased when the previous Federal Treasurer, the Hon. Joe Hockey MP, announced the change following the Council on Federal Financial Relations Tax Reform Workshop. In a statement he said:

*At the meeting the Commonwealth Treasurer put forward a proposal that relies on a vendor registration model as a method of collecting the GST for the states and territories. As goods would not be stopped at the border, administering a vendor registration model would have a relatively low cost.*

*The Commonwealth also recommended that the existing threshold for the GST liability be reduced to zero, in line with the GST collection for other products and services. The states and territories have unanimously agreed to this in principle.*

The ARA and the Shopping Centre Council of Australia (SCCA) provided a submission in response to the then *Tax Laws Amendment (Tax Integrity: GST and Digital Products) Bill 2015*, when first exhibited following the May Budget.

In this submission we provided strong support for this important GST integrity measure. We also urged the Government to consider applying the principles in closing this loophole for digital products to tangible products purchased offshore. We are pleased that the Government has, since that time, also reached agreement with the States and Territories to close the Low Value Threshold (LVT) loophole for the offshore purchase of tangible goods.

We jointly reviewed the proposed amendments incorporated in the now *Tax Laws Amendment (GST treatment of Cross-Border Transactions) Bill 2015* and have no particular concerns with the proposed changes as the objectives of the Bill – and the Government's policy intent in progressing this reform - remain the same.

The retail and shopping centre sectors are pleased to restate their broad support for the Government's reform direction:

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<sup>1</sup> *Treasury Laws Amendment (2017 Measures no. 1) Bill 2017* Exposure Draft Explanatory Material (p. 5, s. 1.14)



- Applying the GST to digital products and other imported services sourced offshore is not a new tax.
- It is the appropriate application of the GST to products which would, if purchased domestically, attract the GST.
- International corporations should be paying their fair share of GST in Australia.
- This move levels the playing field for Australian retailers to overseas retailer competition.

We support the legislative basis which would see offshore suppliers of tangible goods and services collecting and remitting GST to the Australian Government. This is a modern approach which will defer administrative costs from Government. We understand that there is still no intention to impose a 'threshold' under which the GST would not apply to the purchase of the intangible goods. We support this approach.

Further, we would encourage the Government to take on board the lessons and outcomes from this body of consultation and stakeholder engagement as part of implementation of the now agreed position in regard to intangible products to close the LVT loophole on tangible products.

The ARA looks forward to, where possible, assisting the Government in its ongoing deliberations on these important GST integrity measures.

The vendor registration model has significant advantages over other possible schemes. As such, this submission will outline our ideas and concerns about the proposed Amendment, specifically about how it relates to the vendor registration model and what concerns we have about the implementation and enforcement of the legislation.

Of note is the proposed discussed inclusion of "Marketplace" sites to capture smaller volume retail. We believe this measure will go a long way to assist the capture of smaller players without the need to pursue through agreements in other jurisdictions or other arbitrary measures.

### ***Registering for GST***

Given the suppliers we are discussing are, by definition domiciled overseas and are not subject to Australian taxation law a number of smaller retailers have raised concerns over the \$75,000 turnover threshold.

Following briefings with Border Protection, the Australian Tax Office (ATO) and Treasury, the ARA are comfortable that the Australian Government can undertake measures to encourage or force companies to register for GST including declaration form changes and data sharing with overseas jurisdictions.

Discussions indicated enforcement will rely on tax treaties with other countries, whereby the relevant authority within another country will enforce the new laws on retailers domiciled in their country, on behalf of the Australian Government along with options including but not exclusively website blocking.

The ARA acknowledges previous research and modelling that shows collecting the GST at the border is undesirable, given the administrative costs of doing so. However, that modelling was predicated on all low value goods being stopped at the border, assessed for GST and then held until the GST is paid by the consumer.



A mix of both the vendor registration model and a border-control model through checking of self-declarations along with data matching should be effective in enforcing the legislation. Where an overseas retailer does register for GST, they would then go on a list that is given to Border Protection and Australia Post. Goods from those suppliers would be earmarked as having paid GST and so would not be stopped at the border. However, an overseas retailer that has not registered for GST (and who therefore hasn't charged GST at the point-of-transaction) doesn't go on that list. Therefore, their goods will be stopped at the border and Border Protection (or Australia Post), discussions have indicated new coding will be introduced to assist these measures.

With indications 500 to 1000 of the largest overseas retailers have been identified as initial targets of the legislation, the 'overflow' of low value goods that have not had GST charged on them should be relatively low, and will therefore not pose an unacceptable administrative burden on Border Protection.

### ***Identifying Overseas Suppliers***

It has been noted in other consultations about the LVT that a relatively small number of overseas online retailers (accounts range from 20 to 50) account for a large percentage of the total consumer imports into Australia. With the initial scale of the proposed registration of brands non registered entities along with third party "Marketplace" websites, those who fall between the cracks are likely to contribute very small volumes.

The ARA's smaller and specialty members are concerned that nothing in the amendment or explanatory material, discusses how overseas suppliers will be prioritised and encouraged to register for GST. Depending on how companies will be prioritised to register, it may be worth having specific Australian industries discussions with the ATO around options to identify specific overseas online suppliers to ensure the widest possible take-up of registration is seen by industry, having a mechanism to achieve this as necessary.

While it is not necessary to include this issue in the legislation, the ARA members thought it worth raising as part of the more general consultation into the low value threshold and following discussions with respective departments and agencies where these issues have been raised for implementation.

### ***GST Registration Threshold***

The ARA agrees the threshold for registration for overseas suppliers should be the same as Australian suppliers (turnover of \$75,000 for a for-profit business, \$150,000 for a not-for-profit). The explanatory material (s. 1.22) makes it clear the threshold only applies to the turnover of the Australian portion of that business.

That seems reasonable, although as mentioned we would like to see the mechanisms discussed with respective agencies continually improved to deal with concerns expressed by some retailers.



### **Goods forwarders**

The ARA supports good forwarders, as defined in the Exposure Draft, being held responsible for collecting and remitting the GST for the value of the goods and agrees with the proposal around the last handler (closest to the consumer) should register to do this.

### **GST and Australian based retailers operating distribution from overseas**

The ARA also notes that on no tax input status of this measure Australian businesses will need to look at their respective business models if they are using some forms of overseas based distribution and sales.

### **Conclusion**

As noted above, The ARA and our members strongly support this amendment to create a vendor registration model that will see overseas retailers register for, collect at point-of-transaction and remit to the ATO the GST for low value goods. Our concerns relate, for the most part, to how the Amendment will be implemented and enforced, and we are happy to continue to work with respective departments and agencies to achieve this.

We note that there is a proposed **two-year review** after implementation, we agree this is an important mechanism to address issues as they arise in what is a continuing area of taxation challenge along with observing what other jurisdictions might do in addressing these issues given Australia is one of the first movers in introducing these measures.

Our members thank Treasury and the Treasurer for the opportunity to be involved in this consultation and I would be pleased to discuss this submission further, at your convenience.

Kind regards,

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