



Productivity Commission
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Collection Models for GST on Low Value Imported Goods

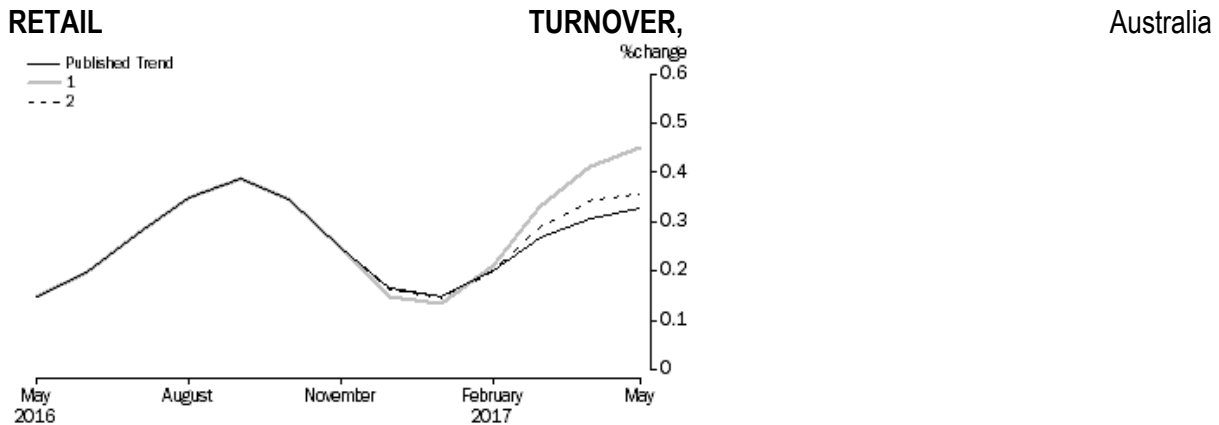
The Australian Retailers Association (ARA) offers support, information and representation to around 7,500 retailers across the nation, representing more than 50,000 shop fronts. The ARA ensures the long-term viability and position of the retail sector as a leading contributor to Australia's economy.

The ARA is by far Australia's largest retail organisation with coverage from the country's very largest retailers to small and medium retail businesses.

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 from \$25.1b in May 2016, increasing to \$26b in May 2017. This represents an increase of just 3.82% year-on-year.



Source: ABS

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



Specific recommendations and concerns

The ARA has been the only retail organisation working all the way through this process with Federal and State Governments to reduce the low value threshold and provide a level playing field for Australian-based retailers.

The first significant consultations were commenced by then-Assistant Treasurer Bill Shorten MP.

Following the work commenced by Mr Shorten, we were very pleased that the previous Federal Treasurer, the Hon. Joe Hockey MP, announced the change following the Council on Federal Financial Relations Tax Reform Workshop.

The ARA provided a submission in response to the then *Tax Laws Amendment (Tax Integrity: GST and Digital Products) Bill 2015*, when first exhibited following that Budget.

We provided strong support for this important Digital 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 via a “vendor” model. The ARA considered this the quickest way of implementing a model which would capture a percentage of revenue from this measure.

We are very pleased ***both the Government and Opposition have expressed their own strong support*** for the changes and that legislation has passed, albeit with implementation being delayed for 12 months.

The ARA fully supports implementation and collection as of 1 July 2018 and does not support any further delay. Secondly the ARA has supported the Government’s vendor collection model as a first step in collection and the quickest and simplest means on initial collection. This does not mean we do not support other methods of collection which could be implemented on 1 July 2018 and would collect more revenue more efficiently.

Retailers believe the Government should investigate other models, improve collection methods or indeed introduce new collection methods.

In fact, retailers, and the ARA, have always said we wanted to achieve as close to a 100 per cent collection rate as practicable. We are aware our borders are leaking tax revenue in regard to Excise and this will only be further highlighted with the new tax on all overseas consumable goods.

One consistent issue which concerns retailers is the low rate of collection in the vendor model. We believe other methods need to be looked at to increase the collection rate, noting however none that would delay a 1 July 2018 implementation date.



For these reasons, the ARA believes a transporter liability model is the next most practicable step in implementation which could be operational as soon as the 1 July 2018 commencement date for GST collection.

The ARA is not proposing that this method is exclusive of the current vendor proposal, however we are open to it eventually replacing any less efficient model over time. We believe, after seeing evidence and research, that the Government needs to consider that there are other methods which can operate at low cost and collect much more revenue.

In conjunction with this measure, we also believe issues around personal importation need to be addressed through the postal system. While the postal option will take longer, likely rely on international agreements and face more difficulties, the only way to pick up Excise and GST revenue will be to implement postal measures to support the other implementation measures. Our members who deal with Excise related products report considerable avoidance or non-reporting of lower value products which should attract taxes; this measure would have a net benefit to both Commonwealth and State revenues through increased collection of both GST and Excise.

The retail sector wants to make it clear to Government and regulators that collecting only part of the GST revenue on low value items from overseas is not enough. We will continue to work with retailers to ensure as much revenue is collected as practicable. If this means a long-term campaign to further change legislation to achieve this we will undertake it.

While the vendor model has appeared to be the quickest and easiest model to implement, the ARA believes there may be significant limitations to the amount of tax it will collect.

We have always said other options need to remain open to broadening revenue collection.

Our view is a model which requires cargo and freight companies to carry not only the obligation, but the liability on collection, is an effective way of collecting. We understand this is as simple as the freight system recognising the item is going to Australia and calculating tax against the item.

Australia already has significant revenue border collection issues on Excise items which can also be addressed by this simple system. We understand has been implemented in a number of European jurisdictions.

We have viewed a number of international reports including the **Copenhagen Economics study** – which shows a 98 per cent compliance rate for cargo into the European Union ⁱ.

Evidence in the report shows Value Added Tax (VAT) is collected on only 35 per cent of items imported via postal operators whereas express operators score better at 98 per cent.

In addition, to deal with the Excise issue, import duty is collected on only 47 per cent of items imported by postal operators whereas express carriers score better at 99 per cent according to the report.

The reasons given are clear cut, that the technology is now employed to allow cargo systems to collect the tax on dispatch to a location as part of the shipping cost from the vendor; and the cargo shipper is



responsible for collection and remittance of any taxes owing under the proposed model. As soon as a location is entered, the tax requirements are flagged to be assessed against value. This system in all respects is not reliant on storage or payment at end of use and has a far lower administrative cost.

Further we believe that as indicated through all our consultations with agencies over the journey of this tax being implemented, it is possible to have the postal system address collection as international postal agreements are being put into place. What we have always been told is that this method would take time to implement and it would be reliant on international agreements.

Universal Postal Union's (UPU) *26th Congress Reportⁱⁱ on the Integrated Product Plan (IPP)* for international mail, and Advanced Electronic Data (AED), which we understand is already working for Australia Post (from some developed countries) can in addition be implemented to collect GST on postal items.

While the postal solution will not be immediate, over a period of several years this final stage in a collection model could be added which would deal with both Excise and low value GST.

Remembering that many of the original discussions on collection methods occurred several years ago, the original recommendations were made around cost of collection in an environment where appropriate technology did not yet exist.

We now have or will soon have systems implemented which can collect GST at a low cost, with little interruption to processing times which simply did not exist several years ago.

Government agencies will need to have the correct powers to enforce Excise and GST tax collection.

While the Excise and tariff role has been reduced for Customs the reality is significant revenue is lost through personal and cargo importation. This is an obligation which those cargo and postal services should ultimately carry, an obligation which Customs and the Australian Tax Office should enforce to guarantee compliance.

As core principles:

- 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, based here or not;
- This move levels the playing field for Australian based retailers of all forms to overseas retailer competition domiciled offshore;
- A cargo or transporter liability model should be investigated to increase the revenue collection rate;
- When Australia Post has the capability it should also carry the same transporter liability model as cargo.

No system is perfect, and there are still holes in the Australian based GST collection system. As one book retailer member told the ARA: collect two of the overseas book sellers and you will capture 80 percent plus of the untaxed book volumes entering this country. This would fix a specific product category



to some extent, yet also shows even with limited importers in this space there is still a considerable hole in revenue.

If overseas retailers, freight forwarders or anyone else tell the Productivity Commission they cannot collect, it is their own fault. These companies have been completely aware this legislation has been coming and are completely involved in consultations just as the ARA has been. They need to take responsibility for the products they are handling and their associated taxation responsibilities around those goods.

We are not the only country moving in this area. Nearly all of our counterparts have a much lower threshold than Australia, another furphy being floated in by those who do not want to pay their fair share of tax.

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.

This reform is a long time coming. The retail sector is frustrated with the delay that occurred after the last Senate hearings, and implore the Government not to delay implementation later than 1 July 2018, but to continually look for new and additional collection systems to raise what is already a low collection rate.

Kind regards,

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ⁱ Copenhagen Economics E-COMMERCE IMPORTS INTO EUROPE: VAT AND CUSTOMS TREATMENT Authors: Dr Bruno Basalisco, Julia Wahl, Dr Henrik Okholm

ⁱⁱ 26th CONGRESS Report by the Postal Operations Council Integrated Product Plan (IPP) 2017–2020