

JUNE 2015

‘RE: RE:THINK’

Submission to the Tax Discussion Paper

ABOUT US

Set up by consumers for consumers, CHOICE is the consumer advocate that provides Australians with information and advice, free from commercial bias. By mobilising Australia’s largest and loudest consumer movement, CHOICE fights to hold industry and government accountable and achieve real change on the issues that matter most.

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KEY POINTS

- A review of available evidence shows there is no agreement that reducing the current GST low-value threshold on imported goods from \$1,000 would raise more revenue than it would cost to collect.
- Studies that do claim net benefits – principally those funded by the domestic retail industry – rely on a transfer of collection costs from government to consumers in order to claim overall economic gains.
- The 2012 Low Value Parcel Processing Taskforce recommended a more efficient and advanced approach to parcel processing to reduce the costs of GST collection. This approach does not currently exist.
- Various collection fee proposals would add costs of between 27% to 256% for purchases under \$100, at worst turning a \$20 book purchase into a \$72 purchase.
- Simply increasing the costs and administrative burden of overseas shopping without creating net benefits for the Australian community will undermine competition and hurt local consumers.
- The main reasons Australians shop online relate more to convenience than price, suggesting changes to the LVT are not the solution to issues faced by the local retail industry.
- While a 2012 report commissioned by the local retail industry claimed that approximately 91,500 jobs would be lost between 2012 and 2015 without changes to the LVT, the sector has in fact grown by 64,600 over this period, stronger growth than the preceding three years.
- CHOICE urges the Federal Government to continue working towards creating efficiencies in the parcel processing system that would result in net benefits to the Australian community from a reduced GST low-value threshold in the future.

INTRODUCTION

CHOICE appreciates the opportunity to provide the following comments on the Tax Discussion Paper, 'Re: Think'. CHOICE supports the Federal Government's intention to create a better tax system that is fairer and less complex. We have focused our comments on a tax implementation issue of importance to consumers: ensuring that any changes to the Goods and Services Tax low value threshold (GST LVT) are evidence based and will result in net benefits to the Australian community.

Imported goods are generally subject to GST unless their value is \$1000 or less. CHOICE supports the principal of tax-neutrality however we caution against moves to lower or abolish the LVT in the absence of a business case establishing that it would raise net revenue. Poorly designed or implemented changes to the LVT risk reducing competition by restricting Australian consumers' access to cheaper online markets while producing no overall economic gain.

The vast majority of goods imported into Australia are worth less than \$100. Crucially, most studies show that a LVT below \$100 would not be viable. Most studies also show that it is unlikely or at best unclear whether a change from the current benchmark of \$1000 would raise net revenue.

Some studies, notably those funded by local commercial interests seeking to reduce competitive pressures from overseas, have suggested that processing fees should apply in order to cover the administrative costs of collecting the GST. To be clear, processing fees do not reduce the costs of collecting the GST. They do not increase the likelihood that a lower threshold will raise net revenue. They simply transfer these costs from government to consumers.

Overly onerous processes, such as having to make declarations and pick up deliveries from certain locations within limited hours, will compound this impact. Various collection fee proposals would add costs of between 27% to 256% for purchases under \$100, at worst turning a \$20 book purchase into a \$72 purchase. Such cost increases would amplify the already significant price discrimination faced by Australian consumers across a range of goods and services, while reducing competitive pressure on local retailers from overseas.¹

¹ For example, see CHOICE, 'Eight things to know about IT pricing', 15 August 2014, accessed at <https://www.choice.com.au/electronics-and-technology/computers/computer-software/articles/8-things-to-know-about-it-pricing> on 2 June 2015

Having reviewed all available studies on the impact of lowering the LVT, CHOICE believes there is no convincing evidence base for making changes to the GST LVT at this time. We would urge the Federal Government to continue working towards creating efficiencies in the parcel processing system that would result in net benefits to the Australian community from a reduced GST low-value threshold in the future.

GST Low-value threshold

The low-value threshold (LVT) is the amount below which imports are exempt from GST and other charges such as customs duties and processing fees. Currently the LVT is set at \$1000, and has been at this level since 1985 (this obviously pre-dates the GST, but not other charges which are exempt under the LVT).² The growth in online shopping in recent years has drawn attention to the impact of the LVT on both tax revenue for states and competition in the Australian retail industry. This has resulted in several studies which have examined the viability of lowering or abolishing the LVT.

Australian bricks and mortar retail stores and online retailers operating from within Australia are liable for the GST. However online retailers based overseas can sell products that are below the LVT directly to consumers without being liable for GST or other charges. Many in the retail industry have claimed that this gives foreign online retailers an unfair advantage and can make their prices up to 25% more competitive when considering all of the additional charges that are exempt.³ An Ernst and Young report commissioned by the National Retailers Association (NRA) in February 2012 concluded that the LVT gives foreign operators a 14% price advantage on average.⁴

A major impediment to reducing the LVT is that evidence suggests that at a lower level the costs of applying the GST to imported goods would outweigh any additional revenue that could be raised. However, it has also been noted that several other jurisdictions have successfully placed their sales tax thresholds at much lower levels. The Parliamentary Library⁵ has compared these other existing systems to Australia.

Some studies have suggested that the LVT could be lowered and still raise net revenue. Others have suggested that Australia could follow other jurisdictions and implement processing fees to help cover costs. The main studies which have considered how the LVT could be lowered are considered below.

² Dale, T. (2014). *Online shopping and potential changes to the low value threshold: costs and benefits for government, consumers and retailers*

³ National Retailers Association (2014). *Response to Productivity Commission Interim report: Relative Costs of Doing Business in Australia*

⁴ Ernst and Young (2012). *The GST Impact of the Low Value Threshold*

⁵ Dale, T. (2014)

Table one: International LVT schemes

| Country | Threshold (VAT/GST) | Processing charges |
|----------------------|---------------------|--|
| Australia | A\$1,000 | For consignments between \$1,000–\$10,000 in value charges range between \$40.20 and \$50. |
| Britain | £15 (A\$27.15) | Royal Mail charges an £8 (A\$14.48) processing fee. |
| Canada | C\$20 (A\$20.09) | C\$9.95 (A\$9.99) |
| New Zealand | NZ\$400 (A\$364.77) | In some cases fees are applicable - NZ\$29.26 (A\$26.68) + biosecurity levy NZ\$17.63 (A\$16.08) |
| United States | – | US\$5.50 (A\$6.01) (Customs) + US\$5.35 (A\$5.84) (Post)* |

*Processing fees apply when liable on duties and other charges.

Studies on lowering the LVT

Numerous studies have attempted to gauge the impact of lowering the LVT. By and large they have indicated that lowering the LVT too low would not be economically viable unless the costs could be recouped in some way. However there is considerable variety in the findings of these studies.

The 2010 report by the Board of Taxation was the first to consider whether the GST LVT ought to be lowered. It considered a proposal to lower the LVT to \$250. The report acknowledged that the LVT as it stood gives overseas operators a competitive advantage vis-à-vis domestic retailers. However it recommended against lowering the LVT because it would result in consumers “paying disproportionately high amounts of GST and administrative charges to have their goods released from Customs compared to the value of the goods”.⁶ Overall it concluded that lowering the LVT would not be ‘administratively feasible’. The Board also noted that the \$1000 is not indexed and had not changed since 2005.⁷ As such the LVT would

⁶ Board of Taxation (2010), *Review of the application of GST to cross-border transactions*, p 46.

⁷ Ibid.

decrease in real terms over time. If the LVT had been indexed to the inflation rate since 2005, it would be approximately \$1290 as of March 2015.⁸

The next research to consider lowering the LVT was done by the Productivity Commission in 2011 as part of its review of the entire retail industry. A report by the Centre for International Economics commissioned by the Conference of Asia Pacific Express Carriers (CAPC) and submitted to the Productivity Commission’s inquiry estimated that lowering the LVT would be untenable as the potential revenue would be outweighed by the collection costs.⁹

Table Two: Revenue and costs at various thresholds (2009-10), Centre for International Economics

| Threshold | Revenue- International mail, millions | Costs - International mail | Revenue-Cargo, millions | Costs – Cargo | Net revenue, millions |
|--------------|---|----------------------------------|----------------------------|------------------|--------------------------|
| \$0 | \$681 | 3755 | \$315 | 3755 | -\$6,514 |
| \$100 | \$538 | 1031 | \$133 | 278 | -\$638 |
| \$200 | \$437 | 647 | \$100 | 153 | -\$263 |
| \$500 | \$234 | 248 | \$50 | 53 | -\$17 |

Source: Centre for International Economics, derived from tables 4.3 and 4.4. Revenue includes both GST and duties.

The Productivity Commission made its own estimates for the potential revenue and costs of lowering the LVT to \$100 for the 2010-11 financial year. It concluded that it would cost the community over \$1.2 billion to collect just \$496 million in revenue (of which \$385 million would be from GST).¹⁰ Much like the Board of Taxation the Productivity Commission agreed that in principle the GST should be neutral and apply to all retail trade.¹¹ However because of the administration costs its final report recommended against lowering the LVT but also called for

⁸ Reserve Bank of Australia

⁹ Centre for international Economics (2011), *The GST threshold for low value products*

¹⁰Productivity Commission (2011). *Economic Structure and Performance of the Australian Retail Industry*.

¹¹ Ibid.

a taskforce to investigate reforms that could be enacted by make lowering the LVT economically and administratively feasible. The government accepted the recommendations in its response in December 2011 and established the Low Value Parcel Processing Taskforce which was run by the Treasury.¹²

The Low Value Parcel Processing Taskforce published its final report in July 2012.¹³ It made a number of recommendations for changes to parcel processing which would increase efficiencies and therefore decrease costs, making a lower LVT more feasible. It should be noted that the report’s recommendations are based on “a new approach for handling and administering low value goods” that includes using pre-arrival electronic data (that does not currently exist), and “permitting Australia Post, express carriers and other freight forwarders to charge a handling fee for the costs of collecting any GST revenue.”¹⁴

The Taskforce considered what revenue could be raised, and what the corresponding costs would be, in light of these reforms. The findings of the Taskforce, as summarised by the Parliamentary Library, was that a “small change in threshold (not substantially different from the current \$1,000 level) would be cost inefficient because of the low number of items. Conversely, a very low threshold might be cost inefficient because of the high number of very low-value items.”¹⁵

Therefore it noted that there is a middle ground in which a lower threshold would be viable, but at the extreme ends the costs would outweigh the benefits. The final report published total revenue estimated for various thresholds as well as the estimated cost to revenue ratios. It did this for both air mail and cargo. From these we can derive the following table which summarises the estimated net revenue.

¹² The Australian Government (2011), *Government response to the Productivity Commission inquiry into the economic structure and performance of the Australian retail industry*.

¹³ Treasury, (2012), *Low Value Parcel Processing Taskforce: Final Report*.

¹⁴ Treasury, (2012), *Low Value Parcel Processing Taskforce: Final Report*, p. 7

¹⁵ Dale, T. (2014)

Table Three: Revenue and costs at various thresholds (2014), Low Value Parcel Processing Taskforce

| Threshold | GST revenue- International mail, millions | GST revenue- Cargo, millions | Cost to revenue ratio-International mail | Cost to revenue ratio- Cargo ¹⁶ | Net revenue, millions |
|--------------|---|---------------------------------------|--|---|--------------------------|
| \$0 | \$272.2 | \$107.3 | 166% | 86% | -\$164.4154 |
| \$100 | \$130.2 | \$97.2 | 67% | 44% | \$97.398 |
| \$200 | \$83.3 | \$75.4 | 50% | 34% | \$91.2632 |
| \$500 | \$32.6 | \$37.4 | 33% | 25% | \$49.7424 |

Source: Low Value Parcel Processing Taskforce, derived from tables 4.3.3, 4.3.4 and 4.3.9 and figure 4.3.5.

There are three observations that can be made about the above table. First, lowering the LVT to \$0 would not be economically viable as costs would significantly outweigh the benefits. Second, even in the best case scenario the amount of revenue raised is quite low at just under \$100 million, or 0.2% of total GST revenue for the 2013-14 financial year.¹⁷ Third, the estimated revenue before costs for the \$100 threshold is \$157 million lower than that estimated by the Productivity Commission for the 2010-11 financial year.

Other studies have also put the potential revenue at higher levels. The Treasury has separately estimated the amount of revenue forgone because of the GST LVT in its Tax Expenditures Statements, most recently in January 2013.¹⁸ These estimates are shown below. Note that they indicate gross not net revenue.

¹⁶ Using the lowest collection cost.

¹⁷ http://www.budget.gov.au/2014-15/content/bp3/html/bp3_04_part_3.htm

¹⁸ Treasury (2013). *Tax Expenditures Statement 2012*.

Table Four: Gross revenue forgone because of the LVT, Treasury

| FY | 2008-09 | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 |
|--|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenue from goods, millions | \$300 | \$390 | \$470 | \$530 | \$650 | \$710 | \$780 | \$860 |
| Revenue from services, millions | \$110 | \$120 | \$150 | \$160 | \$180 | \$210 | \$230 | \$260 |

Two Ernst and Young reports commissioned by the National Retailers Association (NRA) published in 2012 projected that the amount of GST forgone because of the LVT in 2012-13 was \$620 million. This increased to \$1.05 billion by 2014-15 and \$2.4 billion by 2021.¹⁹ However again these are estimates of gross not net revenue, and do not consider the costs of collection.

Another Ernst and Young report was commissioned on 2013 by the Australian National Retailers Association (ANRA) which considered a GST collection system which lowers the LVT to \$20.²⁰ It estimated that this would result in a **net** gain of \$6.5 billion in GST revenue between 2014-15 and 2019-20. The increase in GST revenue as estimated by Ernst and Young includes not only revenue derived from applying the GST to imports at a lower threshold, but also the increase in revenue from consumers switching to domestic suppliers as they become more price competitive. The results are presented below.

¹⁹ Ernst and Young (2012). *The GST Impact of the Low Value Threshold* and Ernst and Young (2012). *The threshold question: Economic impact of the low value threshold on the retail industry*.

²⁰ Ernst and Young (2013). *Levelling the playing field – implementing a \$20 LVT for overseas on-line purchases*.

Table Five: Revenue and costs at a \$20 threshold, Ernst and Young

| | 2014-15 | 2020-21 |
|--|---------|---------|
| Gross revenue from imports (\$20-\$1000), millions | \$574 | \$1010 |
| Gross revenue domestic retail (\$20-\$1000), millions | \$455 | \$680 |
| ATO collection costs, millions | \$32 | \$47 |
| Net revenue, millions | \$997 | \$1643 |

What is immediately apparent is that the collection costs in this study are considerably lower than others. This is partially because the only costs that are assumed to impact revenue are those borne by the ATO. The research did calculate other costs (see below) however it assumed that these would be recouped through the application of a processing fee – i.e. paid directly by consumers.

Table Six: Total collection costs, Ernst and Young

| | 2015 | 2021 |
|------------------------|--------------|--------------|
| ATO | \$32,030,376 | \$47,057,344 |
| Australia Post | \$40,980,876 | \$49,198,456 |
| Cargo operators | \$33,955,455 | \$39,735,524 |

In order to recoup these other identified costs the report suggested a system similar to the UK. This will involve two processes for collecting GST. Overseas suppliers with Australian sales above \$75,000 per annum will be required to register with the ATO, however smaller operators may voluntarily register if they wish. Registered suppliers will apply the GST at the point of sale and will pay the ATO the owed tax. Un-registered suppliers however will not apply the GST so their packages will need to be assessed for GST liability by Australia Post or by the private cargo operator delivering the goods. In order to receive their un-registered purchase, consumers will need to pay their GST plus a processing fee.

By the end of the decade the report estimates that 30% and cargo and 50% of air mail purchases will be through un-registered suppliers, and thus liable to pay a processing fee. The

processing fee, according to the study, will be \$4.67 in 2014-15 rising to just \$4.69 by 2020-21. However the study stresses that these “should be treated with caution as there is a significant degree of uncertainty involved in estimating the costs of such collection systems.”²¹

These processing fees are also lower than those in other jurisdictions (see table one), and the overall costs (see table six) are likewise well below other estimates.

Another estimate of the potential revenue to be gained from lowering the LVT can be derived from the Australian Bureau of Statistics (ABS). Prior to the Productivity Commission inquiry, the ABS did not include purchases under the LVT in its calculations of the Terms of Trade. Following the inquiry, the ABS has included these purchases and the ABS has adjusted past Terms of Trade figures by estimating the value of purchases below the LVT.

This data determined the adjustment for 2010-11 to be \$5.4 billion, moving up to \$6.2 billion in 2011-12²² and \$7.6 billion in 2012-13.²³ This adjustment is equivalent to purchases of merchandise below the LVT. Assuming that all of these sales would be liable for GST, this would mean that at a \$0 threshold the revenue raised would be approximately \$760 million in gross revenue.

Considering all the studies together it is clear that there is much disagreement between their findings, both in relation to the revenue that can be raised, and the costs of administering the tax. Table seven below summarises the studies on selected thresholds for an easier comparison.

²¹ Ibid, p 24.

²² ABS (2013). *International Trade In Goods And Services*.

²³ ABS (2013). *Measurement of Online Retail Trade in Macroeconomic Statistics*.

Table Seven: Summary of different studies

| Study (year estimate is for) | Revenue source | Threshold | Revenue (millions) | Costs (millions) | Net revenue (millions) |
|--|-------------------|-----------|--------------------|------------------|------------------------|
| Centre for International Economics (2009-10) | GST and Duties | \$0 | \$996 | \$7510 | -\$6,514 |
| Centre for International Economics (2009-10) | GST and Duties | \$100 | \$671 | \$1,309 | -\$638 |
| PC (2010-11) | GST and Duties | \$100 | \$496 | \$1,200 | -\$704 |
| Taskforce (2014) | GST | \$0 | \$379.5 | \$543.9 | -\$164.4 |
| Taskforce (2014) | GST | \$100 | \$227.4 | \$130.02 | \$97.38 |
| Ernst and Young* (2014-15) | GST | \$20 | \$1029 | \$107 | \$922 |
| Ernst and Young** (2014-15) | GST | \$0 | \$1050 | - | - |
| Treasury (2015-16) | GST | \$0 | \$1,120 | - | - |
| ABS | GST (Merchandise) | \$0 | \$760 | - | - |

* The 2013 study commissioned by the ANRA. The costs that can be recouped via a processing fee have not been included in the net revenue as the table seeks to compare the impact of all the estimated costs.

** The 2012 study commissioned by the NRA.

As we can see from the table most studies show that a LVT below \$100 would not be viable. This is significant as the vast majority of incoming goods to Australia are below \$100 in value. According to the Taskforce 75% of inbound international mail items and 65% of inbound air cargo items are below \$100 in value.²⁴

²⁴ Treasury, (2012), *Low Value Parcel Processing Taskforce: Final Report*.

Processing fees

A controversial aspect of the LVT debate is whether or not processing fees should be implemented in order to cover the administrative costs of collecting the GST. As already discussed, the Taskforce recommended that Australia Post be empowered to charge processing fees and Ernst and Young analysis has proposed a processing fee based on the UK's system. However, as the estimates of costs of collection vary widely so too do estimates of what these fees would need to be.

The Taskforce's estimates put the collection costs per item at \$12.01 in 2015 at a \$0 threshold.²⁵ For a fee to cover all collection costs it would need to be this amount. The Productivity Commission puts the collection costs at \$50 per parcel on average "even under highly favourable assumptions."²⁶ However this would still be a worst case scenario in which no other changes are made to make collection more efficient. As already mentioned the Ernst and Yong report estimates the collection fee to be \$4.67, which is comparatively optimistic. Table eight (Attachment 1) provides some tangible examples of how the price of certain products would change under these different scenarios, as well as considering a fee comparative to the one charged in the UK (A\$14.48).

It should be emphasised however that processing fees do not reduce the costs of collecting the taxes – they merely transfer them to other stakeholders, namely from couriers and the government to consumers. That is to say that processing fees are not a solution to high collection costs as they do not reduce the costs of collection, they just change who pays for them. Processing fees that are excessively high can act as de-facto tariffs which discourage consumers from shopping online. Overly onerous processes, such as having to make declarations and pick up deliveries from certain locations within limited hours, will have the same effect, especially in light of CHOICE research which suggests that convenience is the main motivator behind online shopping.²⁷

There are examples of onerous processes and excessive fees being used as protectionist measures. In 2014 Argentina introduced regulations that require buyers to sign a declaration and produce it at a customs office to receive packages from overseas. This means that items from sites such as Amazon and eBay would no longer be delivered to people's homes. A 50%

²⁵ Ibid.

²⁶ Productivity Commission (2011), p 245.

²⁷ CHOICE (2014). *Pre-Budget submission: Consumer priorities in the 2014-15 Federal Budget*.

tax was also introduced. Commentators believe this to be part of the Government's efforts to boost currency reserves.²⁸

Impact of the LVT on the retail industry

The 2012 Ernst and Young report commissioned by the NRA concluded that by 2015 some 118,700 traditional retail jobs would be lost, of which only 27,230 would be replaced by Australian online retail operators. However the report claimed that if the LVT was abolished this would direct more consumers to Australian operators resulting in between 20,000 and 33,400 additional jobs accruing in the domestic retail sector. Therefore the report estimated that without changes to the LVT approximately 91,500 retail jobs would be lost between 2012 and 2015.²⁹

However according to the ABS retail jobs (which includes both online and traditional jobs) in Australia have increased by approximately 64,600 from February 2012 to February 2015 – an increase of 5.4%.³⁰ It is of course possible that in the absence of the LVT the growth could have been stronger. However the growth over this time is actually stronger than the preceding 3 year period from February 2009 to February 2012 during which retail employment fell by 2.2% and only slightly below the three year period running from February 2006 to February 2009 during which retail employment grew by 5.8%. The more recent Ernst and Yong report from 2014 commissioned by the NRA, however, still predicts the loss of retail jobs if the LVT is not lowered. It estimates that lowering the LVT to \$20 would save between 21,900 and 36,500 retail jobs.³¹

While the absence of the GST on imported goods obviously gives overseas operators a price advantage some have questioned if this is significant. Indeed as the Productivity Commission noted in its 2011 report:

“The Commission is of the view that the exemption from payment of GST and customs duty on goods valued at less than \$1000 is not the main factor affecting the international competitiveness of Australian retailers. This is particularly so due to the current large difference (in excess of the 10-20 per cent accounted for by the GST and duty) between domestic and overseas retail prices for many goods

²⁸ <http://www.bbc.com/news/world-latin-america-25836208>

²⁹ Ernst and Young (2012). *The threshold question: Economic impact of the low value threshold on the retail industry*.

³⁰ ABS (2015). *Labour Force*, 6291.0.55.003.

³¹ Ernst and Young (2014). *Economic impact of the low value threshold on the retail industry – an update of the Feb 2012 report*.

purchased online. Other factors influencing this judgement include: some consumers shop online overseas because they can not obtain the goods they require locally; the cost of freight on individual items is comparatively high and provides some natural protection; and the willingness of Australian consumers to pay a small premium (some have suggested 20 per cent) for the security of purchasing from an Australian supplier. Indeed the issue of the level of the LVT may be distracting attention from more fundamental issues facing the retail industry arising from their increasing exposure to international competition. The overwhelming majority of retail sales in Australia are not exempt under the LVT.”³²

The Institute of Public Affairs has echoed these sentiments, suggesting that the retail industry is experiencing a “Schumpertarian” moment of ‘creative destruction’. It believes that the larger problems facing the retail industry are related to their lack of price competitiveness above and beyond the GST, high labour and occupancy costs, domestic regulations, high courier costs within Australia, and parallel importation bans.³³

Research by CHOICE also suggests that the woes of the retail industry lay elsewhere. A nationally representative survey conducted by CHOICE in 2013 found that the main reasons Australians shop online relate more to convenience than price.³⁴ The top reason Australians buy online is so they can shop at the times that suit them, followed closely by the convenience of getting products delivered to their door. Furthermore, the survey found that 68% of consumers who do buy from overseas websites to save money said they save more than 15%, while 43% said they save over 25%. The parliamentary inquiry into IT Pricing in Australia also found that the price differences faced by Australian consumers far outweigh the GST.³⁵

Lastly, as the Productivity Commission also noted in 2011, the overwhelming majority of retail sales in Australia are not exempt under the LVT. Foreign online sales represent a minor share of retail spending in Australia. According to research from NAB, online retail accounts for just 6.9% of total retail sales in Australia despite rapid growth in in recent years.³⁶ The majority (74.8%) of online sales in Australia take place on domestic websites, which charge GST. As 98.6% of online sales from foreign sites are under \$1000, the LVT accounts for just 1.7% of all retail sales.³⁷

³² Productivity Commission (2011), p 210

³³ Novak, M., (2015). *No to the GST tax attack: Why the exemption for online purchases should stay.*

³⁴ CHOICE (2014)

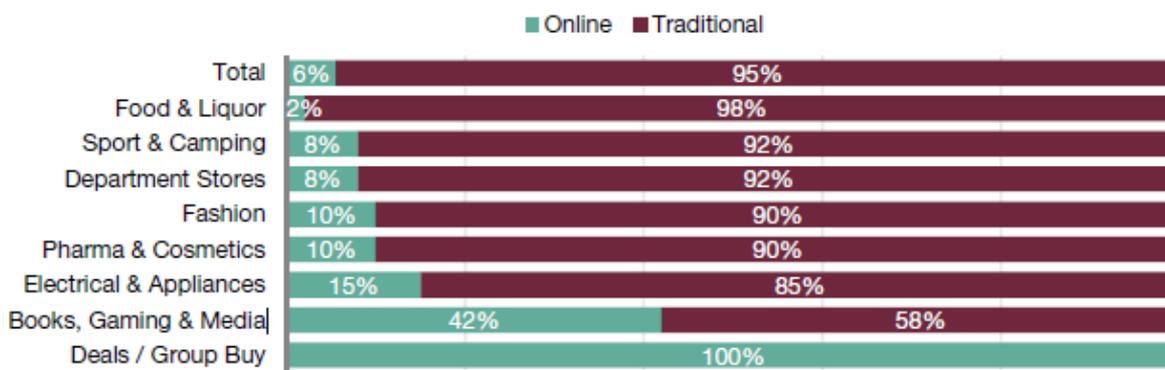
³⁵ Standing Committee on Infrastructure and Communications (2013). *At what cost? IT pricing and the Australia tax*

³⁶ NAB (2015). *NAB Online Retail Sales Index In-depth report – January 2015.*

³⁷ Productivity Commission,(2011), *Economic Structure and Performance of the Australian Retail Industry*

It is worth noting, however that parts of the retail industry are more exposed than others. For example the following data from Commonwealth Bank shows that while food and liquor retailers may not have much to fear from international competition, books, gaming and media has already been significantly disrupted.

Graph One: Online share by category - 12 months to January 2014



Source: Commonwealth Bank (2014), *Equities: CBA Credit Card Data*, p3

Conclusion

Whether or not the LVT can be lowered and be able to generate net revenue without onerous processing fees is not well established in the literature. Indeed most studies indicate that lowering the LVT below \$100 is not feasible, and even then the revenue that it can generate may only be negligible. If a processing fee was to be charged it is not well established what this would need to be as the costs associated with lowering the LVT are also widely contested.

CHOICE recommends:

- That the Federal Government should not abolish or lower the current GST low-value threshold on imported goods unless there is evidence to demonstrate that the revenue raised will outweigh the costs of collection, including those costs paid directly by consumers.

Attachment 1: Impact of processing fees

Table Eight: Examples of processing fees compared

| Product | Price | GST | Duties | Fee 1 | Fee 2 | Fee 3 | Fee 4 | Mark up | | Revenue to mark up ratio |
|---|-------|-------|--------|--------|---------|---------|--------|---------|---------|---|
| | \$A | \$A | A\$ | \$4.67 | \$12.01 | \$14.48 | \$50 | Low est | Highest | Revenue as a % of the total (lowest) mark-up. |
| The Girl on the Train (Book) | 20.31 | 2.031 | 0 | 27.011 | 34.351 | 36.821 | 72.341 | 33% | 256% | 30% |
| All the Light We Cannot See (Book) | 26.79 | 2.679 | 0 | 34.139 | 41.479 | 43.949 | 79.469 | 27% | 197% | 36% |
| A Song of Ice and Fire: 7-Volume Box Set (Books) | 113.4 | 11.34 | 0 | 129.41 | 136.75 | 139.22 | 174.74 | 14% | 54% | 71% |
| Samsung Galaxy S6 32GB | 650 | 65 | 0 | 719.67 | 727.01 | 729.48 | 765 | 11% | 18% | 93% |
| Apple iPhone 6 64 GB | 809 | 80.9 | 0 | 894.57 | 901.91 | 904.38 | 939.9 | 11% | 16% | 95% |
| LINDSEY SLEEVELESS MIDI DRESS | 24 | 2.4 | 1.2 | 32.27 | 39.61 | 42.08 | 77.6 | 34% | 223% | 44% |

| | | | | | | | | | | |
|---|-----|------|-----|--------|--------|--------|-------|-----|------|-----|
| ASOS WHITE Block Print Cotton Jumper | 128 | 12.8 | 6.4 | 151.87 | 159.21 | 161.68 | 197.2 | 19% | 54% | 80% |
| ASOS T-Shirt With Faux Suede Striped Panel And Relaxed Fit | 32 | 3.2 | 1.6 | 41.47 | 48.81 | 51.28 | 86.8 | 30% | 171% | 51% |