

More Aussie Jobs!

Reforming the tax system to boost employment

Submission to the Federal Government's Taxation Review



**National Retail
Association**

Prepared by the National Retail Association

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1.0 Overview

The retail sector is one of our nation's largest employers. The sector is comparatively reliant on labour, compared with capital inputs, and so has a greater capacity than most other industries for creating jobs through growth, which can in turn reduce pressure on government welfare and other social services expenditure. Notably, retail sector employment typically demonstrates higher than average levels of female employment, youth employment, and entry level or lower-skilled employment. Many retail roles require no formal qualifications as a prerequisite for employment or promotion. The sector also typically demonstrates higher than average levels of part-time and casual employment, and in some cases higher staff turnover. The sector can play a significant role in creating jobs for the unemployed and other job market entrants, new migrants, youth, the secondary income earner in households, those seeking redeployment from shrinking industries and those seeking new career prospects later in their lives.

While there has been welcome steady growth in retail spending in recent months, it remains weak by historical standards due to a range of factors. Retailer viability is threatened because of the convergence of weak demand with rapidly escalating costs of operation including labour costs, rents, utilities costs and other increases across the supply chain.

More significantly though, the retail sector is also undergoing a structural upheaval following advancements in technology, digitalisation and online shopping. Consumer product markets are now essentially global, meaning that Australian retailers are competing against offshore competition. And their competitiveness is being hampered by the current state of the Australian tax system.

The greatest challenge is the GST low-value threshold tax (LVT), which is creating a disadvantage for local retailers as they are forced to compete with overseas retailers who are exempt from paying GST on imports below \$1000. As the Federal Government confronts a growing unemployment problem in Australia and lower than expected growth in industry and revenues, it must look to address inequities in the tax system that are currently hindering the success of Australian businesses, and therefore limiting their ability to create employment. The NRA supports moves to close this unfair loophole which effectively acts as a reverse tariff working against Australian businesses, and handing a competitive advantage to overseas retailers. As well as contributing directly to the overall tax take, closing the LVT loophole will improve the profitability of local businesses, increase overall employment levels and boost government revenues through additional PAYG and company tax payments. **Please note, this submission does not propose increasing the rate of the GST, nor widening the base. It merely argues for the inclusion of goods that were undoubtedly intended to be captured by the GST regime when it was designed and implemented.**

The NRA also supports the long-standing proposal – led by the Australian Federation of Travel Agents, and the Tourism and Transport Forum – to simplify tourist shopping arrangements. The proposal is for the operation of the scheme to be opened to private refund providers, and the simplification of the claims process. The NRA believes these changes would also provide a boost to local retailers, with the increases in Company Tax and PAYG revenues.

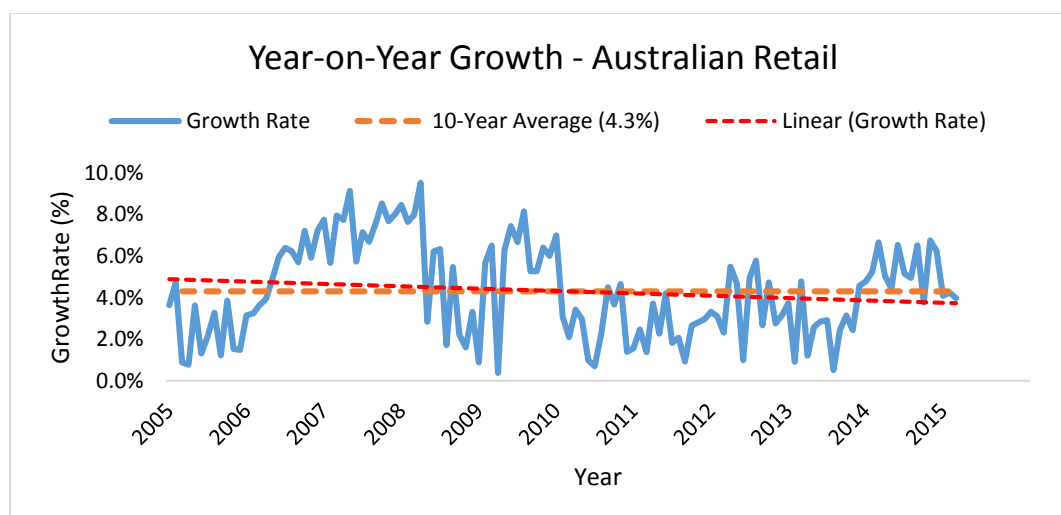
This proposal is focused on how a simpler and fairer tax system can support Australian businesses and drive employment across the economy.

2.0 About the Submitter

The National Retail Association (NRA) is a not-for-profit industry organisation providing professional services and critical information and advice to the retail, fast food and broader service industry throughout Australia. The NRA is Australia's largest and most representative retail industry organisation, representing more than 19,000 stores and outlets. The NRA's membership is comprised of members from all the sub-categories of retail including fashion, groceries, department stores, home wares, hardware, recreational goods, newsagents, fast food, cafes and personal services like hairdressing and beauty. It also includes both large and small businesses, including the majority of national retail chains, as well as independent retailers and franchisees, and other service sector employers. The NRA has represented the interests of retailers and the broader service sector for almost 100 years. The NRA's aim is to help Australian retail businesses grow.

3.0 The current state of play for the Australian retail sector

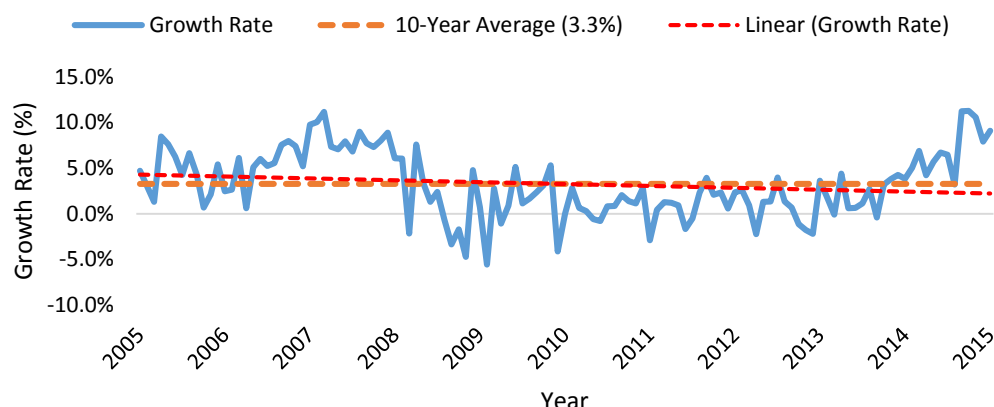
The long-term performance of the Australian retail sector suggests that business operators have faced incredibly challenging economic conditions for a protracted period of time. For the past ten years, a clear, downward trend has become evident in the retail trade turnover data, released by the Australian Bureau of Statistics. Although strong growth was experienced throughout 2006 and 2007, the Australian Retail industry has had sustained periods of poor sales performance, only recently returning to above average sales growth.



Source: ABS 8501.0 – Retail Trade, Australia, Jan 2015

This downward trend in retail trade turnover is reflected in a number of category sub-divisions, which are key to the Australian retail industry. In particular, those businesses that are largely dependent on discretionary expenditure, have experienced a clear downward trend in sales growth across the past ten years. While recent retail trade turnover data suggests short-term improvement, especially for household goods retailing, it is uncertain whether this will develop into a sustained growth trend through 2015. Regardless, most categories in the Australian Retail industry are currently experiencing significant challenges in achieving sales growth that exceeds the 10-year average.

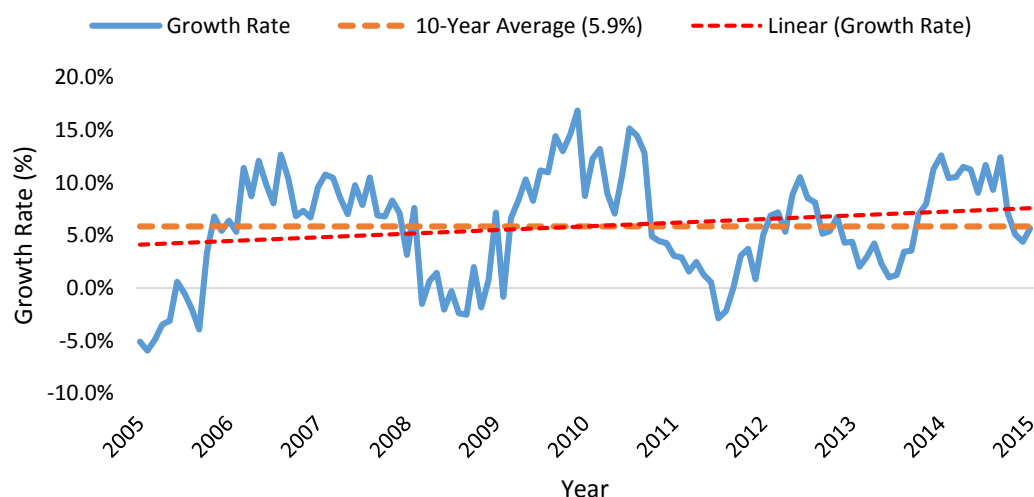
Year-on-Year Growth - Household Goods Retailing



Source: ABS 8501.0 – Retail Trade, Australia, Jan 2015

At present, the only Retail category experiencing a positive, long-term trend in sales growth is cafes, restaurants and takeaway food services. With a 10-year average growth rate of 5.9 per cent, this category experienced double-digit growth, at multiple time points, across the past five years, relative to other industries, which have been growing at an average of less than 3.5 per cent. **In our view, it is no coincidence that the only sector of the retail economy experiencing sustained growth is also the only sector not exposed to digital disruption through overseas-based internet retail sales.**

Year-on-Year Growth - Cafes, Restaurants & Takeaway



Source: ABS 8501.0 – Retail Trade, Australia, Jan 2015

Research conducted by the National Retail Association also indicates that, relative to historical standards, consumer spending is weak. Indeed, as a result of reduced consumer confidence, the viability of many retail businesses have been impacted by a decline in consumer demand, and increases in operating costs including labour, rents, and utilities.

4.0 Why should government support the Australian retail sector?

The most recent business data available from the Australian Bureau of Statistics indicates that 3.1 per cent of retail businesses ceased trading in the twelve months to June 2013, with all of these closures occurring in small business (1-19 employees)¹.

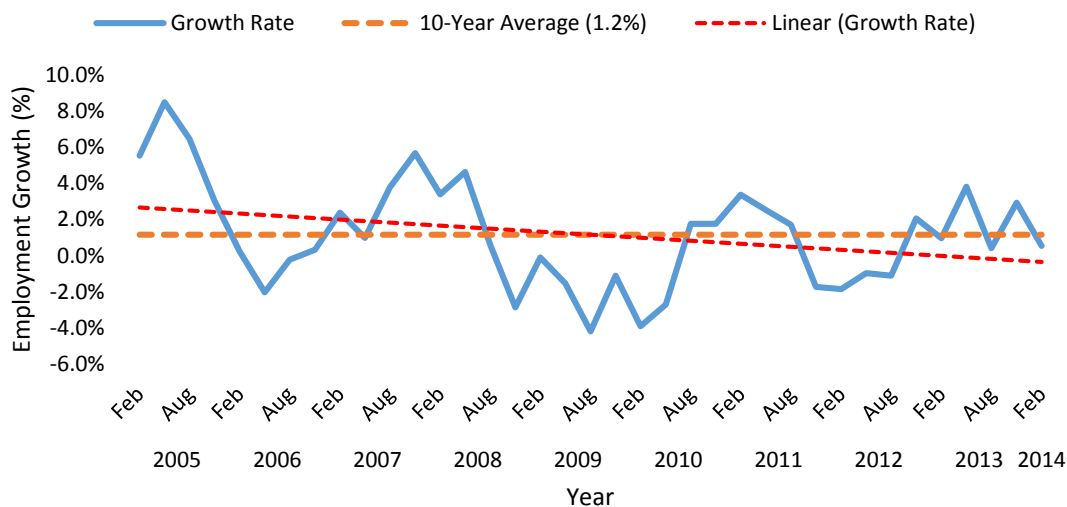
Service industry employment now dominates the Australian economy:

- In 1966 46% of all employed persons in Australia worked in production industries. Today 77% of all employment is attributable to the service sector, rising from 54% in 1966.
- In the 1960s, Australia was evolving from a nation of largely primary industries – of sheep, cattle and wheat – to one of manufacturing. By the late 1960s refrigerators, washing machines, vacuum cleaners and cars had become increasingly available to Australians. This is reflected in the industries which employed most people in August 1966; Manufacturing (26%) and Wholesale and retail trade (21%).
- In August 2011, manufacturing was a relatively much smaller component of the economy than it was in the past (accounting for just 8% of employed people). The Health care and social assistance industry was the largest industry (employing 12%), followed by Retail trade (11%) and Construction (9%), while Agriculture and Mining only accounted for 3% and 2% respectively of all employed people.
- The growth in some service industries also reflected a changing Australia; some 77% more people worked in the child care industry compared with just 10 years ago. [ABS 4102.0 Australian Social Trends, December 2011]

The Australian Retail industry, however, has experienced a sustained, long-term decline in employment growth across the past ten years. Analysis conducted by the National Retail Association reveals a 10-year average growth rate of 1.2 per cent, which ranks the retail industry as one of the lowest performing sectors in terms of employment growth, and well below the national average of 2.6 per cent for all other industries. While the sheer size of the retail workforce means that any growth means significant numbers of new jobs, nonetheless the declining rate of growth should be a significant concern for policy makers.

¹ 8165.0 - Counts of Australian Businesses, including Entries and Exits, Jun 2009 to June 2013

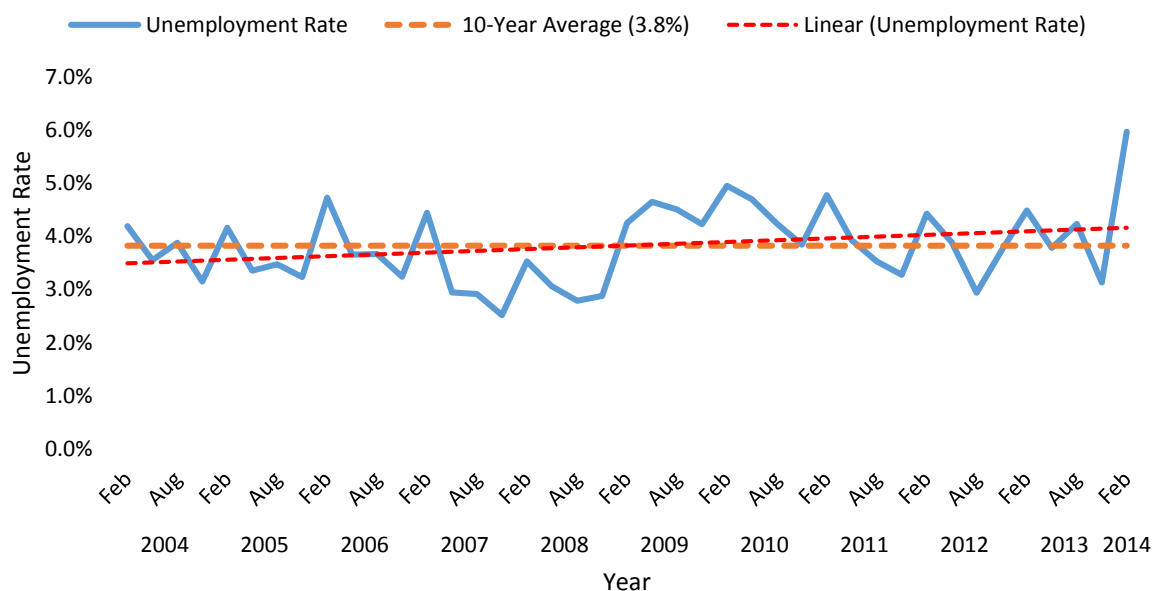
Employment Growth - Australian Retail



6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Feb 2014

17. Unemployment statistics for the Australian Retail industry also suggest a linear trend towards an increased number of retail workers that are unemployed. Analysis conducted by the National Retail Association indicates that across the past ten years, the Retail industry has had the fourth highest average unemployment rate, at 3.8 per cent, which is higher than the national average for all other industries (3.1 per cent)². This evidence, combined with a decline in consumer spending, increase in operating costs, and a contracting rate of employment growth, highlights the sustained economic pressure that has been placed on retail businesses in the past ten years.

Unemployment Rate - Australian Retail



6291.0.55.003 - Labour Force, Australia, Detailed, Quarterly, Feb 2014

² The industry unemployment rate was calculated using unemployed people who were employed in an identified industry within the past two years. It does not include people that have been unemployed for more than two years, or have never been in the labour market. As a result, within industry unemployment figures will be lower than the labour force-wide unemployment rate.

5.0 The GST Low Value Threshold

In his 2015 Budget Speech, Treasurer Joe Hockey made the following observations about overseas-based retailers selling digital products into the domestic market:

It is unfair that overseas based businesses selling services into Australia may not charge GST when local businesses have to charge GST. A local business that employs Australians, pays rent in Australia, pays tax in Australia, and helps build our economy is disadvantaged by the current system. We will level the playing field for Australian businesses by mandating that foreign businesses supplying digital products and services are subject to the GST.

The Treasurer is completely on the money with these sentiments. However, there is no reason that these very arguments should not also apply to overseas businesses that import goods worth up to \$1000 into Australia. The reforms contained within the 2015 Budget have reduced the size of the GST loophole, but only marginally. Genuine reform to “level the playing field” must address the entire advantage currently enjoyed by overseas retailers.

While selling with relative ease into the Australian market, these overseas retailers do not contribute in any significant way to employment and economic growth within Australia, nor to national tax revenue. Further, this GST exemption also creates an exemption from tariffs, import duty and customs charges – costs that are borne by suppliers to the Australian retail market and passed on to local retailers. Depending on the product category, these costs can add up to 25 per cent to the wholesale price of local goods.

Research conducted by Ernst and Young, and commissioned by the NRA, shows that lost GST revenue to the states will exceed \$1 billion next financial year as a result of this LVT loophole. It is also stripping more than \$1 billion in revenue from State and Federal Governments – money that could be spent on local schools, hospitals or employment programs. This amount is projected to grow significantly in the Budget over years. Another report, also by Ernst and Young, estimated the loophole will cost up to **33,400 local retail jobs** – most likely the jobs of lower paid or vulnerable workers such as young people, single parents and senior workers returning to the workforce.

Contrary to popular media opinion, this LVT issue is not a matter of online verses traditional retail. This impacts Australian-based online retailers in exactly the same way as it impacts local shops. The only retailers able to exploit the loophole are those who operate off-shore, particularly foreign retail giants such as Amazon.com. Small Australian businesses are disadvantaged, regardless of whether they are “clicks” or “bricks” businesses.

This issue is not about increasing either the rate of the GST nor the range of goods and services to which it applies. This is about closing a loophole that rewards and encourages overseas retail, to the detriment of Australian businesses, workers and – ultimately, through reduced local competition – consumers. These are goods and services that, if purchased from an Australian on-line retailer, would attract the GST. The NRA, along with the entire Australian retail sector, strongly believes this unfair tax loophole for foreign businesses should be closed. The Federal and State Governments must act to close this loophole immediately, to prevent the loss of even more Aussie jobs to overseas retailers.

6.0 Levelling the playing field

The NRA continues to support the recommendations of the previous Federal Government's GST Distribution Review Final Report relating to protecting the intended GST revenue base and preventing the leakage of GST revenue from online imports. This should involve taking immediate steps to make overseas suppliers to Australian residents liable for remittance of GST on all supplies of goods and services that would be subject to GST if purchased from a domestic supplier, and to reduce the low value import threshold to \$20.00.

The GST Distribution Review Panel's Final Report noted that comparable countries such as the United Kingdom and Canada have thresholds of approximately \$20.00. The Panel also noted that a much lower threshold is needed to minimise a number of practices currently used to avoid the GST, including the disassembly of products and the adjustment of invoices. In fact, the Panel stated that the current threshold is open to "flagrant abuse".

Lowering the LVT to \$20.00 will yield the following benefits:

1. Local retailers will be able to compete on a level playing field, whereas currently the operation of the GST and customs regime puts our businesses at an immediate price disadvantage compared with foreign competitors. Local retailers are not requesting special treatment or protection – we just want a fair go so we can properly compete on a level playing field. The current regime actively discriminates in favour of foreign companies.
2. More Aussie Jobs. An Ernst & Young report commissioned by NRA estimates that up to 33,400 local retail jobs will be lost if our local businesses continue to face this tax discrimination. Note that these jobs are often likely to be the jobs of the least skilled and most vulnerable workers in our country, as the retail sector employs a high proportion of our nation's least skilled workers, such as our youth, single parents, and senior workers returning to the workforce.
3. The Commonwealth Government will be making good its responsibility for vigilantly protecting the GST revenue base on behalf of the States and Territories, by closing an emerging loophole that has become significant since the original design of the GST;
4. The States and Territories will receive additional GST revenues, allowing them to invest in public services and easing their reliance on Commonwealth financial support. The value of the potential GST revenues is \$819 million in 2013-14 and growing to over \$1 billion a year within the forward estimates, as forecast in a separate Ernst & Young Report, also commissioned by NRA.
5. The Commonwealth Government will also receive additional revenues, by virtue of ensuring that this slice of the domestic economy is retained within Australia, rather than lost overseas, retaining its capacity to receive PAYG, corporate and other taxes received from the resulting domestic economic activity.

6.1 Compliance costs

Previous examinations of this issue have raised concerns that the costs of collecting GST on low-value imports would exceed the revenue stream. However, the previous government's taskforce found that lowering the LVT even to \$500 would generate sufficient revenue to cover the collection costs. We believe the 2015 Budget move to tax digital imports will provide some valuable lessons around implementation and enforcement. These lessons will be immediately applicable to the wider LVT issue.

More importantly, however, the NRA submits that this issue is a contributing factor to a significant number of Australian retailers, particularly in the small and medium enterprise categories, closing their doors, laying off staff, or planning soon to do so. The NRA has members who are proposing to close their doors and lay off their staff when their current leases expire and they nominate this issue as the main reason for their business decision. In this case, maintaining a tax loophole that is causing those closures simply because of the cost of closing it is a false economy at best.

7.0 The Tourist Refund Scheme

The NRA supports the campaign by the Tourism Shopping Reform Group (TSRG) to simplify tourism shopping arrangements in Australia. This campaign is being led by the Australian Federation of Travel Agents, and the Tourism and Transport Forum. In direct contrast to the unfair GST arrangements outlined above, the Tourist Refund Scheme (TRS) supports local businesses by encouraging overseas tourists to spend money in Australia. This in turn flows on to more local jobs and strong tax revenue for the Australian Government.

The TSRG is not requesting any structural changes to the TRS, including changes to the minimum claim amount, eligibility timeframes or coverage. However the TSRG believes operation of the scheme should be opened to private refund providers, who will have a commercial interest in driving retail sales among international visitors. It has called for an examination of possible cost savings that could be derived from outsourcing the TRS export verification compliance function currently undertaken by Australian Customs. And as part of a suite of reforms to off-airport tourist shopping arrangements, the TSRG has called for facilitation of off-airport collection of pre-purchased duty free goods within a short time after arriving in Australia.

Recent years have seen a decline in inbound tourism and a rapid increase in outbound tourism, partially driven by the high value of the Australian dollar. The NRA believes the measures proposed by the TSRG would drive new and innovative shopping arrangements for international visitors to Australia. This in turn would help to reverse the international leakage of net tourism revenue. Private providers are a feature of the Singaporean tourism shopping scheme, and those providers actively promote Singapore as a tourism shopping destination around the world.

8.0 Conclusion

The *Re:think* Tax discussion paper identifies tax reform as “a key part of the Government’s policy agenda to build jobs, growth and opportunity”. In other words, tax reform is not an end in itself, but rather a means to delivering increased prosperity and employment across the economy. At the same time, this review is tasked with shaping a tax system that is simpler and fairer, with lower tax rates.

The NRA believes that achieving the goals must involve addressing the unfair GST LVT loophole. The Budget commitment to tax digital imports is a welcome step in the right direction. The Government should now move to finish the job. This will not only help Australian businesses build prosperity and employment, but – by capturing tax revenue that is currently being lost – it will also broaden the tax base, allowing for lower rates over time.

9.0 Contact information

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