

## TREASURY EXECUTIVE MINUTE

Minute No.

2 November 2010

Deputy Prime Minister and Treasurer

cc: Assistant Treasurer and Minister for Financial  
Services and Superannuation

### THE LOW VALUE IMPORT THRESHOLD: OPTIONS

**Timing:** Your office sought briefing as soon as possible.

#### Recommendation/Issue:

- That you note the following options for addressing issues around the low value threshold applying to imported goods in relation to GST and customs duty.

#### Noted

- That you agree to consultation with representatives of all stakeholder groups likely to be affected prior to the Government making a decision to change the threshold.

Agreed/Not agreed

Signature:

...../...../2011

### Section 22 Not Relevant

**Pages 2-3**

**Section 22 Not Relevant**

## ADDITIONAL INFORMATION

### Section 22 Not Relevant

#### Recent interest in the threshold

The gradual strengthening of the Australian dollar against many currencies in recent years and the steadily increasing access by Australians to the internet are likely to be the critical factors behind reported increased online purchases by Australians. However, retailers and the media have focused on the fact that GST is not payable on imports under \$1000 and claim that this is the cause of the price differential between Australian and overseas retail prices that is driving overseas online sales.

Media reports have stated that the value of online sales in Australia is \$12bn per year (eg Sun Herald, 24 October 2010, p32). This figure is likely sourced from a report released by Frost and Sullivan in July 2010, which, based on a survey of 'more than 1000 active online consumers' forecast that total consumer e-commerce expenditure in Australia will reach \$12bn in 2010, excluding expenditure on online services. They also expect expenditure to grow moderately

over the next four years, rising to A\$17.7 billion by 2014. Frost and Sullivan also claim there has been a lag in local e-retail activity, largely because the large retail chains and department stores do not have strong e-retail presence.

The press release for the report notes 'The number of Australian shoppers using international retail sites confirms that there is a large untapped potential for Australian retailers to develop a local online customer base. However, we are unlikely to see major growth in this sector until more of the big name retailers get online'.<sup>1</sup> The report also notes that price is the key driver for shopping online.

There has likely been an increase in goods purchased over the internet in recent years, but we doubt this is due to the GST exemption for low value imports. Some goods such as books can be purchased more cheaply online from Australian-based retailers. A more obvious explanation is the strengthening in the Australian dollar, which has reduced the effective price of foreign goods. Furthermore, familiarity with the internet and confidence in purchasing from overseas via the internet has been steadily increasing in Australia. The use of internet-based facilities to compare prices and get the best deal from anywhere has been a phenomenon that has been occurring in other countries and presents a challenge to conventional retailing.

The recent rise in the exchange rate has reduced the price of imported goods, but it has been suggested that local retailers have not generally passed through the price benefit to local consumers, and have instead taken the opportunity to increase margins where competition pressures allow. The differences between local retail and overseas prices for some goods may reflect the view that local retail prices will only move slowly, once retailers believe that exchange rate effects are relatively permanent (and to improve margins until competition forces price reductions) while domestic consumers with online access can utilise the exchange rate benefits immediately.

The fact that a high exchange rate shifts spending from domestic to foreign sources, and increases competitive pressures on businesses that face foreign competition, is an integral part of its role in dampening inflationary pressures in support of monetary policy. If measures are taken to protect domestic businesses from these effects, the exchange rate will be less effective in dampening inflation. This may mean that monetary policy needs to do more than otherwise, which would further appreciate the currency, and force more of the burden of adjustment onto other sectors.

While retailers argue that they only seek equal GST treatment for imports, it is not possible to collect GST on all imports without imposing significant costs on importers in order to collect the GST (and customs duty). Once a decision is made to tax goods at the customs barrier, the goods must be stopped and held until the value of the taxes is assessed and the revenue is collected.

## **Section 22 Not Relevant**

**Pages 6-12**

**Section 22 Not Relevant**

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<sup>i</sup> Frost and Sullivan Press Release, 20 July 2010 “\$A12billion Australian Consumer eCommerce Market Underdeveloped and Lags US and UK by Three Years” <http://www.frost.com/prod/servlet/press-release-print.pag?docid=207380860>