POSSIBLE RESULTS FROM THE LOW VALUE PARCEL PROCESSING TASKFORCE

BACKGROUND

Goods imported into Australia (including on-line purchases and gifts but excluding alcohol and tobacco) valued at less than $1,000 are not subject to customs duty, GST, Customs and AQIS charges and are subject to a lower level of reporting to Customs.

Prior to 2005 when the Customs Integrated Cargo System commenced there were two different low value thresholds for the formal requirements for clearance of goods. For air and sea consignments the threshold was $250; for postal consignments the threshold was $1,000. In addition, where goods were not required to be formally cleared, they were exempt from duty/sales tax/GST where the amount payable was less than $50 (in effect a further threshold of $550, inclusive of tax). This $50 minimum threshold was introduced in 1991 (previously it was $20). The concession minimised delays in delivering mail and cargo, reduced the cost of importing low value consignments and took account of the costs of collection of duty and taxes.

Following a complaint by air and sea cargo carriers that the different threshold placed them at a competitive disadvantage the threshold was set at $1,000 for the air and sea cargo streams as well as postal items.

This threshold is high by international standards - see table in the attachment “Experience with low value thresholds in other countries”.

The threshold was considered in the Board of Taxation’s 2009 *Review of the Application of GST to Cross-Border Transactions*. The Board was of the view that it was not administratively feasible to try to bring non-resident supplies of low value goods and services into the GST system at that time. In the 2010-11 Budget the Government accepted the Board’s recommendation that the $1,000 threshold was appropriate.

Controversy over the threshold grew in late 2010 due to overall declining consumer demand for traditional retail supplies which was attributed in part to increasing online purchases from offshore. Retailers claim that the low value threshold is a major factor driving the growth of offshore online purchases and that the threshold places them at a competitive disadvantage. However, consumers claim that shopping online gives them access to a greater range of goods, is often more convenient and that price differences are often much larger than can be attributed to the threshold.

In December 2010 the Government directed the Productivity Commission to examine the economic structure and performance of the Australian retail industry including the sustainability and appropriateness of the current indirect tax arrangements.

The Commission found the low value threshold is not the main factor affecting the international competitiveness of Australian retailers. The Commission also found that with current parcel volumes and processing costs removal of the threshold would generate revenue of around $600 million at a cost of well over $2 billion borne by business, consumer and government and that under most scenarios for reducing the threshold compliance and administrative costs outweighed the revenue gain. Nevertheless, it found there are strong in-principle grounds for the threshold to be lowered significantly but it should not be lowered until it is cost-effective to do so.

The Commission recommended a taskforce should examine ways to significantly improve the processing of low value imports. Once an improved international parcels process has been designed the Government should reassess the extent to which the threshold could be lowered while remaining cost-effective. In December 2011 the Government appointed the Taskforce to investigate options to improve the efficiency of processing low value imported parcels. The Taskforce is to report by July 2012.

FOCUS OF THE TASKFORCE

The main focus of the taskforce report is expected to be on ways of improving the handling of parcels, particularly in the international mail stream where most low value goods arrive. This would reduce the costs of collecting revenue under the existing model where the recipient of the item (ie the consumer) is responsible for the payment of any duties and charges at the point of importation. As part of this process the taskforce is likely to consider options for the deferral of payment by consumers to enable parcels to continue to move through the gateway without delays which would result from holding parcels or waiting for payment.

Options to modify the existing arrangements the taskforce may recommend include:

- Extending the existing deferred import scheme to a greater number of GST registered businesses (enabling these to account for GST on the import in their next BAS rather than at the point of importation);
- Self-assessment of taxes by the importer (including consumers) prior to the arrival of the item through a web based application;
- Allowing Australia Post to undertake responsibility for the payment of taxes and the collection of taxes from importers allowing these items to continue through the Gateway to their final destination without delays while awaiting payment. Australia Post could charge a fee for this service;
- Encouraging registration of regular importers for automatic debiting of taxes by Customs/Australia Post once these are assessed (again allowing these items to continue through the Gateway without delay);
- Automated assessment of taxes in relation to some mail items as electronic data provision becomes available in the international mail stream. This will depend upon initiatives being

developed by the Kahala Group — an international alliance of postal organisations including Australia Post — which will be implemented over time; and

- Greater automation of the postal import declaration system. Much of this data is currently manually processed by Customs, including manual data entry. It should be possible to develop IT systems to automate these processes.

In addition, the taskforce will likely report on some models where the supplier or the payment provider could remit any taxes and charges on the consumer's behalf. Further detail is provided below on models where the supplier remits taxes and charges on behalf of the customer. (See 'Amazon Model' in the Attachment.)

These options are not mutually exclusive and some or all could potentially be part of a package of measures which would reduce the overall costs of collecting revenue by reducing the number of parcels requiring more intensive effort to collect revenue. Such a package would need to be implemented over time as new systems are developed and deployed and use of new technologies such as electronic data provision become more widespread amongst those countries sending items to Australia.

The taskforce is also expected to report on some more 'radical' options for addressing the payment of taxes on imports. These include:

- A proposal for consumers and unregistered businesses to self-assess their liability for GST and/or duty on imports through the annual income tax return process or through direct payment to the ATO. This proposal was promulgated in the GST distribution review and was based on a model operating in the US.
  - The US experience with such a system was that compliance rates were extremely low and it is unlikely that the Taskforce (or Treasury) would recommend the adoption of such a system.
  - Similar approaches have been adopted in relation to importation of services in New Zealand, Canada and South Africa:
    - In New Zealand the value of imported services are taken into account when calculating if an entity is required to be registered, meaning that more of these services will be reverse charged. However, in practical terms this is unlikely to affect consumers (unless they import NZ$60,000 of services in one year).
    - In Canada and South Africa, unregistered importers of services are required to self-assess and remit the GST payable on imports of services. s45 s45

- A proposal developed by the ATO which would essentially place a 10 per cent tax on conversions of Australian dollars into foreign exchange by financial intermediaries processing payments by consumers. The tax would then 'mimic' the GST base by providing a refund of the tax in the following circumstances:

  – Goods and services are consumed outside Australia (for example accommodation in foreign hotels paid by Australians using their credit cards while travelling overseas).

  – Goods and services which are exempt from tax such as some foods and medical aids and appliances (but not currently exempt imports of services such as downloads of software, music or movies which could be taxed under this model).

  – Transfers of funds (for example gifts or financial support paid by Australians to friends or relatives living overseas).

  We would not expect the taskforce to recommend this proposal. Whilst it overcomes some of the difficulties with proposals to require payment providers to remit GST on off shore purchases (see below) and would allow taxation of imported services, it would be very difficult to effectively target the measure to capture the appropriate base. Payments for imported goods or services made in Australian dollars would not be covered and it could be difficult to capture all of the emerging forms of payment for on line purchases. Accessing the refund mechanism for those items not subject to tax would impose a considerable and unjustifiable compliance burden on individuals. Refund mechanisms also provide considerable scope for fraudulent claims which would pose a substantial risk to the revenue.

- A proposal for financial intermediaries such as credit card providers to collect GST on payments made for off shore purchases and remit these payments.

  We would not expect the taskforce to recommend this proposal. The Productivity Commission explored this option during the retail inquiry and noted that the current system for processing payments does not allow the identification of the components of a transaction needed to identify tax liability. The Commission was not aware of any jurisdiction which had adopted this approach.

Costing of options

We understand that the Taskforce has engaged a consulting firm to cost those options it considers are feasible. We do not yet have any information on the likely magnitude of those costs. However, it is likely that at least some of the components of a package will require some upfront investment as well as ongoing administrative costs.

Timeframes for implementation

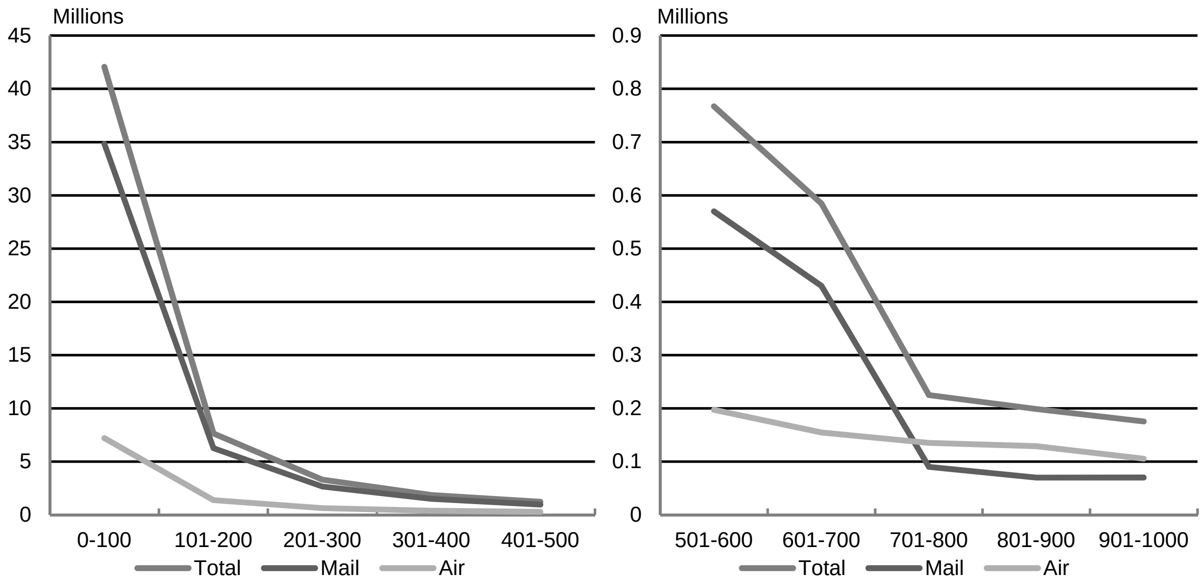
The taskforce has been asked to provide "expeditious time frames for implementation".

Some of the elements of a package of measures the taskforce is likely to propose will be able to be implemented within a relatively short time frame. Others are reliant on the adoption of new technologies and practices by postal authorities in other countries or other third parties which may take some time.

This suggests that the proportion of incoming parcels under $1,000 in value potentially requiring intensive and relatively costly handling to collect revenue would be very large initially, although the proportion could decrease over time if and when new technologies are introduced. If that is the case it would suggest that a staged approach to any reduction in the threshold would be preferable in order to keep the volumes manageable. For example, the threshold might be initially reduced to $800 and then gradually further reduced in increments as new systems were put in place or the level of utilization of those systems increased. This could be accompanied by setting a target threshold to be achieved over time with this target based on a achieving at least a net neutral outcome for revenue and costs, including compliance costs. For instance, Canada's response to similar pressures has been to also embark on a postal handling modernisation process, however, this is expected to take up to 8 years to complete.

LOW VALUE PARCELS ENTERING AUSTRALIA

To give some indication of the magnitudes involved, the attached graphs and tables show the number and value of parcels in $100 increments between $0 and $1,000. Due to the large variability in volumes, the information has been split between two sub-graphs: one for items below $500 and on for items about $500.



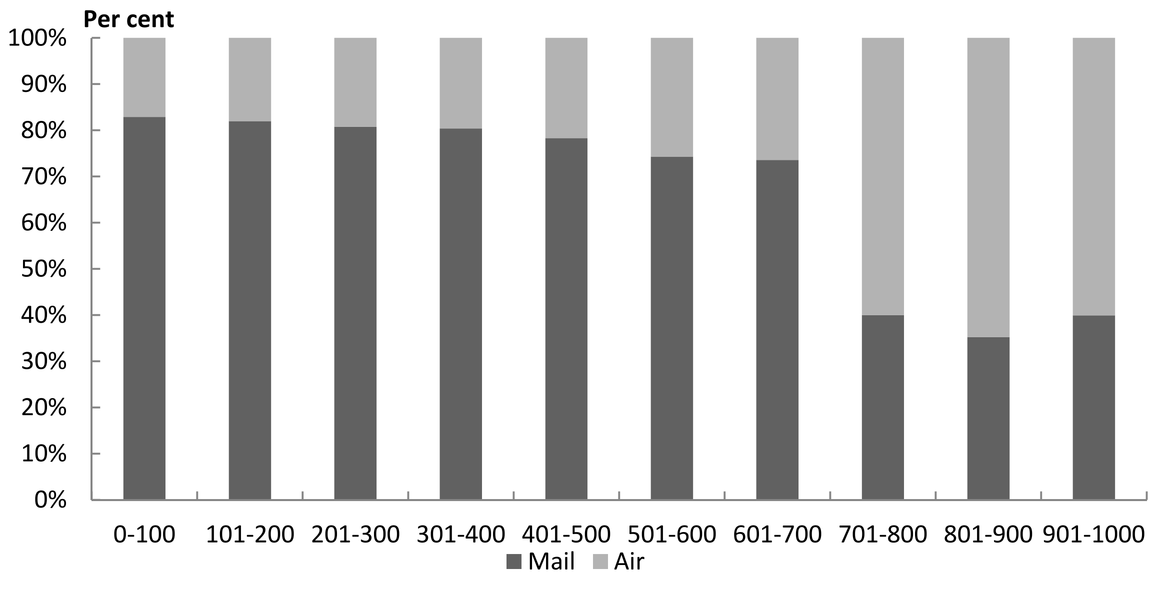
Number of low value imports by value (2010-11)[1]

[1] Source: Productivity Commission Report into Retail Industry (Tables 7.3, 7.4)

The graph above describes the distribution of low value air cargo and international mail parcels entering Australia between July 2010 and June 2011. The graph indicates that international mail is the most used channel for low value parcels entering Australia. The above graph excludes sea cargo for which parcel value data is not available. Sea cargo accounts for less than one per cent of low value parcels entering Australia during this period and therefore its exclusion does not materially affect the analysis.

The data indicates under current volumes if the threshold were changed to $800, less than 1 per cent of international parcels (excluding sea cargo) below $1,000 would be impacted by the reduced threshold. If a threshold of $100 were adopted, this would result in some 28 per cent of low value international parcels being stopped at the border for customs clearance. This information is represented in the table below and takes no account of potential behavioural changes, eg consumers breaking a previously large single acquisition into multiple smaller acquisitions.

Proposed threshold	**Percentage impact**	**Number of total parcels impacted (millions)**	**Number of international mail parcels impacts (millions)**
$100	8%	15.98	13.24
$200	14%	8.33	6.83
$500	3%	1.95	1.53
$800	<1%	0.37	0.15



Proportion low value goods imported by mail and air cargo by value (2010-11)

As the above graph shows, international mail is the dominant method for low value international parcels entering Australia. For parcels worth more than $700 (approximately 1 per cent of total traffic) air cargo is used slightly more than international mail. However, to put this in context, under current volumes, a reduction in the threshold to $800 could result in an overall increase of 370,000 parcels requiring Customs clearance which would represent a significant increase in Customs compliance activities and costs.

For comparison, in 2010-11 approximately 18,000 international mail parcels entering Australia were worth more than $1,000 and required to be processed by Customs. An increase in the number of mail parcels subject to Customs clearance to 150,000 would result in a more than an eight fold increase in the number of mail items requiring Customs clearance.

WHAT THE TASK FORCE IS NOT DOING

Thresholds

We do not expect that the taskforce will make any recommendations concerning the appropriate level of the threshold and the Government has previously stated that it will reassess the threshold once the new arrangements are in place. However there is likely to be pressure for some announcement concerning the future of the threshold shortly after the Government receives the report.

While we do not expect the taskforce to explicitly consider the appropriate level of the threshold it may do so indirectly. Assessing the various compliance regimes is likely to require some consideration of the impact of the volume of parcels anticipated at various levels of the threshold, which may give some indicators of feasible levels at which the threshold may be set. As noted above, this volume could decline over time as new technologies are adopted and new processing procedures can be put in place.

In addition, some of the options the taskforce may consider would be predicated on an assumption that the parcels would only be assessed for GST and not customs duty. This would indicate that it would be more feasible to lower the threshold in respect of GST and not customs duty. Our own view is that any meaningful reduction in administration and compliance costs compared with the current process for parcels above the threshold would only be achieved if the threshold for customs duty, and the associated reporting requirements, is not reduced.

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Attachment A

EXPERIENCE WITH LOW VALUE THRESHOLDS IN OTHER COUNTRIES

This table reports the thresholds for GST/VAT for countries in the OECD.

	Currency	Threshold in Local Currency	Threshold in USD*
Australia	AUD	1 000	642
Austria	EUR	22	26
Belgium	EUR	22	25
Canada	CAD	20	16
Chile	CLP	0	0
Czech Republic	EUR	22	39
Denmark	EUR	10	10
Estonia	EUR	22	41
Finland	EUR	22	23
France	EUR	22	25
Germany	EUR	22	28
Greece	EUR	22	31
Hungary	EUR	22	49
Iceland	ISK	0	0
Ireland	EUR	22	26
Israel	ILS	0	0
Italy	EUR	22	28
Japan	JPY	10 000	94
Korea	KRW	150 000	182
Luxembourg	EUR	22	24
Mexico	USD	300	300
Netherlands	EUR	22	26
New Zealand	NZD	400	263
Norway	NOK	200	21
Poland	EUR	22	49
Portugal	EUR	22	35
Slovak Republic	EUR	22	42
Slovenia	EUR	22	35
Spain	EUR	22	31
Sweden	EUR	22	22
Switzerland	CHF	62	41
Turkey	TRY	0	0
United Kingdom	GBP	15	23
United States	USD	-	-

* Amounts are converted into USD at Purchase Parity Rates

POSTAL PROCESSING IN CANADA AND THE UK

Canada: Both the Canadian Border Services Agency (CBSA) and Canada Post (CP) are involved in collecting revenue from postal imports. s45

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UK: Processing of postal imports in the UK is undertaken by Her Majesty's Revenue and Customs (HMRC) and Royal Mail (RM). s45

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We expect that the taskforce will consider several aspects of these international systems in its final analysis. Notably:

- the use of more automation and less double handling;
- allowing Australia Post to pre-pay the tax due on behalf of the importer; and
- giving Australia Post the ability to charge a fee to recover its costs in the tax collection process.

Both the UK and Canada provide systems for certain overseas sellers to prepay the tax due on their sales.

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'AMAZON MODEL' PREPAYMENT OF GST BY THE SUPPLIER

Some non-resident suppliers, such as Amazon (UK) and Bloomingdale's (USA) either prepay the GST and duty on goods ordered online from their stores or, like Bloomingdale's, give the Australian consumer the option to pay the GST and duty to the courier upon delivery. This applies to orders from countries where the value of the supply exceeds the county of destinations import threshold. Other suppliers such as StrawberryNet (UK) note that most countries do not charge GST or duty on small packages, however, they offer to reimburse customers for any GST or duty paid.

These arrangements often give rise to difficult GST interpretation issues; however, for current purposes we have assumed that the supplier is not the importer of the goods but rather the customer is. Amazon (UK) specifically state in their terms and conditions of sale that the customer agrees:

- To Amazon designating a carrier to act of the customer's behalf with the relevant tax authorities;
- Title and risk of loss transfers to the customer once Amazon delivers the goods to the carrier;
- The customer agrees to be the importer of record and liable for all import fees;
- Amazon to collect an estimate of the import fees (eg GST and duty) to reimburse the carrier for the payment of import fees they make on your behalf; and
- The carrier may disclose actual fees paid to Amazon and where these are less than the amount collect, Amazon will refund the customer.

Amazon (UK) offers this service to 26 countries, for example: NZ, Mexico, Saudi Arabia, Norway, Hong Kong.

While not obliged to offer this prepayment service, it has been suggested the business imperative of doing so is to provide the customer with a seamless door-to-door service rather than the customer having to complete the importation formalities and pay the GST and duty at the border prior to taking possession of the goods or alternatively having to engage a third party such as DHL or FedEx to do this on the customer's behalf (at an additional cost).

This approach seems to be confined to large non-resident suppliers, presumably due to the costs associated with maintaining such arrangements.

In adopting the Amazon model Australia would need to overcome the following difficulties:

- How to enforce compliance with Australia's requirements on non-resident suppliers, in particular smaller suppliers and those from countries with more liberal trade regimes;

- It would be necessary to establish a mechanism to receipt such payments (eg require these non-resident suppliers to register in some fashion with the ATO); and

- Develop processes for dealing with refunds of overpaid GST and duty where this may arise from the non-delivery, cancellation or return of the goods by customers.

For example, non-residents making taxable or GST-free supplies over $75,000 for businesses, or $150,000 for not-for-profits, in a 12 month period are currently required to register and account for GST on their taxable supplies in Australia. However, we understand that there are few non-residents that have actually registered, either because they are unaware of their obligations or because they have chosen not to comply. However, where the customer is the importer, the goods would not fall within these thresholds.