

AGENDA ITEM 2— PAPER PREPERED BY MICHAEL EVANS FOR THE GST DISTRIBUTION REVIEW PANEL

BRIEF OVERVIEW OF ISSUE

1. The GST Distribution Review Panel engaged Michael Evans to explore whether the GST revenues collected for the States and Territories could be increased by collecting GST currently foregone on the importation of goods below the low value threshold of \$1,000.

KEY POINTS

2. The key points arising from this report are:

- An acknowledgement of the findings from other recent reviews, namely by the Board of Taxation in 2009 and the Productivity Commission in 2011 that whilst there are strong in-principle reasons to significantly lowering the current threshold and apply GST to more imported goods this was not cost effective under existing arrangements.
- That of the four options explored for increasing GST revenues from greater taxation of cross-border transactions, Option 2 is considered to be “the most likely to be successful”.
- Option 2 seeks to impose liability for GST on the offshore supplier and GST registered recipients through two mechanisms:
 1. Requiring off-shore suppliers to register for GST when making supplies to unregistered customers in Australia – similar to existing arrangements for GST taxpayers; and
 2. Broadening the existing ‘reverse charge’ provisions to both goods and services for offshore supplies to GST registered customers that are of a private nature.
- Option 2 applies to more than just imported goods and includes imported services (although the extent of such services to be captured is not specified it notes the approach adopted in the EU which includes music and software downloads).
- The Report notes that the success of this option depends upon:
 - Simple registration, lodgement and compliance processes, including a registration threshold;
 - Certainty and clarity in the taxation treatment of the transactions to be covered;
 - The identification of, and communication with, major suppliers to Australian customers to ensure voluntary compliance;
 - Limiting its scope to supplies under \$1,000 and on-line purchases and delivery of intangibles. There would also be a registration threshold to limit the number of offshore suppliers dragged into the GST net.

- The other options included:
 - Option 1: Collecting GST from Australian customers (self-assessment approach, although the Report noted that administrative and compliance costs may outweigh revenue gained)
 - Option 3: Collecting GST from third parties, intermediaries or agents (not recommended because of likely complexity and administrative costs)
 - Option 4: Collecting GST at origin (GST collected by offshore suppliers tax authority and shared with Australia, Report considered not viable at present).

BACKGROUND

3. This paper was commissioned by the GST Distribution Review Panel in the context of looking at options to increase GST revenue collections for the States and Territories. In this context it is worth noting that the States and Territories are responsible for the ATO's administration costs in collecting the GST and therefore have a strong interest in ensuring that the costs of collecting additional GST revenue from imported goods does not exceed the GST collected.
- It was with this in mind that the Productivity Commission recommended that the Government establish a Low Value Parcel Processing Taskforce to examine options for lowering compliance and processing costs.
 - The paper's favoured approach (Option 2: imposing GST liability on offshore suppliers to unregistered Australian customers) relies heavily upon voluntary compliance. The Paper, however, notes that:
 - Offshore suppliers, whilst preferring not to incur the compliance costs of registration and reporting, will respond to gentle persuasion and simple compliance regimes.
 - Dozens of major e-commerce firms such as eBay, Skype and iTunes comply with the EU's collection of VAT from non-EU suppliers for telecommunication services and radio and television broadcasting services where the use and enjoyment of the service occurs within a Member State. In all likelihood, these 'voluntary' registrations for VAT account for a significant proportion of the value of telecommunication services imported to the EU.
 - Michael's paper is referred to in the Taskforce's report.